Profitable

Through the Cycle

PENN WEST

PETROLEUM LTD.

1998 Annual Report

CORPORATE PROFILE

Penn West Petroleum Ltd. is an intermediate Canadian oil and natural gas producer that is sustaining strong growth through exploration and development of internally generated prospects. Penn West exited 1998 with daily production of 200 mmcf of natural gas and 16,500 bbls of oil and liquids.

Penn West focuses on maximizing the Company's profitability by achieving cost-effective growth in production and reserves. Penn West's producing properties and large base of undeveloped land are concentrated in five Core Areas of activity in Western Canada, providing a broad range of short, medium and longer term natural gas and oil prospects.

Penn West is a publicly traded company listed on The Toronto Stock Exchange, under the trading symbol "PWT." As at December 31, 1998, there were 45.3 million common shares issued and outstanding. Since 1995, Penn West has been part of the TSE 300 Composite Index.

ANNUAL GENERAL MEETING

The annual general meeting of the shareholders of Penn West Petroleum Ltd. will be held in the Brittania Room, The Westin Hotel, Calgary, Alberta, on Tuesday, May 18, 1999 at 3:00 p.m. Shareholders who are unable to attend are urged to complete, sign and mail their proxies to ensure their common shares will be voted at the meeting.

On the Cover:
It takes a lot of courage to maintain law and order, and for 125 years the Royal Canadian Mounted Police (RCMP) have done so, with honour and pride. This part of our heritage has been captured in the commemorative silver coin, designed by noted Canadian artist Adeline Halvorson, and featured on the cover of this report. Through its charitable donations program, Penn West Petroleum Ltd. is pleased to help support the Mounted Police Foundation (MPF).

The photo in the background depicts Penn West's natural gas plant at Minnehik-Buck Lake.

CHARTING OUR PERFORMANCE

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EXPLORATION, DEVELOPMENT AND OPERATIONS

MANAGEMENT'S DISCUSSION & ANALYSIS

NCIAL AND OPERATIONS HIGHLIGHTS

NANCIAL HIGHLIGHTS

millions, except per share mount and % change)	1998	1997	% change
ues	210.7	217.6	(3)
	113.0	122.9	(8)
r share	2.73	3.09	(12)
uted per share	2.68	3.01	(11)
	32.6	37.2	(12)
r share	0.79	0.94	(16)
uted per share	0.77	0.90	(14)
enditures, net	249.0	179.4	39
debt	249.8	169.5	47
s' equity	392.4	274.0	43
	793.5	584.8	36
ares outstanding (millions)			
d average			
c	41.33	39.79	4
diluted	44.71	43.32	3

PERATIONS HIGHLIGHTS

	1998	1997	% change
liquids (bbls per day)	13,958	12,604	11
gas (mmcf per day)	184.0	164.8	12
probable reserves (year-end)			
liquids (mmbbls)	64.7	47.7	36
gas (bcf)	772.0	638.4	21
d			
	156	162	(4)
	143	147	(3)
d land (000s of acres)			
	2,027	1,856	9
	1,735	1,563	11
king interest (%)	86	84	2

CORPORATE PROFIL

Penn West Petroleum Ltd. i
ducer that is sustaining stro
internally generated prospe
200 mmcf of natural gas an

Penn West focuses on maxi
effective growth in producti
and large base of undevelop
ity in Western Canada, pro
term natural gas and oil pro

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FINANCIAL AND OPERATIONS HIGHLIGHTS

1 FINANCIAL HIGHLIGHTS

($ millions, except per share amount and % change)

	1998	1997	% change
Gross revenues	210.7	217.6	(3)
Cash flow	113.0	122.9	(8)
Basic per share	2.73	3.09	(12)
Fully diluted per share	2.68	3.01	(11)
Net income	32.6	37.2	(12)
Basic per share	0.79	0.94	(16)
Fully diluted per share	0.77	0.90	(14)
Capital expenditures, net	249.0	179.4	39
Long-term debt	249.8	169.5	47
Shareholders' equity	392.4	274.0	43
Total assets	793.5	584.8	36
Common shares outstanding (millions)			
Weighted average			
Basic	41.33	39.79	4
Fully diluted	44.71	43.32	3

2 OPERATIONS HIGHLIGHTS

	1998	1997	% change
Production			
Oil and liquids (bbls per day)	13,958	12,604	11
Natural gas (mmcf per day)	184.0	164.8	12
Proven and probable reserves (year-end)			
Oil and liquids (mmbbls)	64.7	47.7	36
Natural gas (bcf)	772.0	638.4	21
Wells drilled			
Gross	156	162	(4)
Net	143	147	(3)
Undeveloped land (000s of acres)			
Gross	2,027	1,856	9
Net	1,735	1,563	11
Average working interest (%)	86	84	2

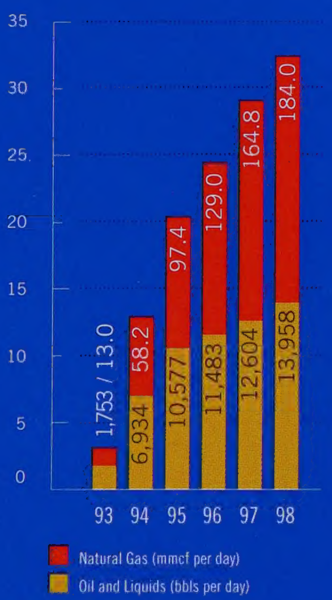
PROFITABLE

THROUGH THE CYCLE

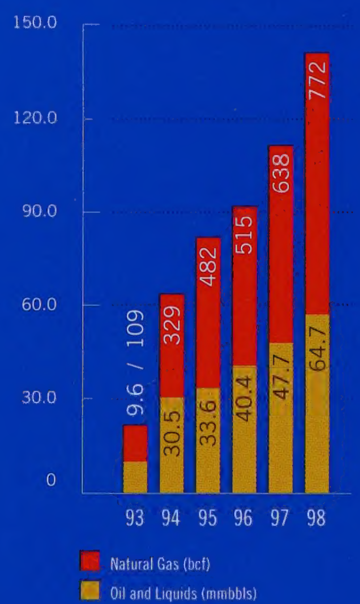
PENN WEST'S STRATEGY IS TO SUSTAIN LONG-TERM GROWTH BY ACHIEVING CONTINUAL, YEAR-OVER-YEAR, COST-EFFECTIVE INCREASES IN PRODUCTION AND RESERVES. SINCE THE EXISTING MANAGEMENT TEAM JOINED THE COMPANY IN LATE 1992, THE COMPANY HAS ACHIEVED A SIX-YEAR TRACK RECORD OF PROFITABLE GROWTH BOTH THROUGH THE DRILLBIT AND THROUGH STRATEGIC ACQUISITIONS. THE COMPANY HAS REMAINED PROFITABLE THROUGHOUT THE INEVITABLE UPS AND DOWNS OF COMMODITY PRICE CYCLES BY ENSURING THAT CERTAIN OPERATING PRINCIPLES ARE IMPLEMENTED AND STRICTLY FOLLOWED. DURING 1998, PENN WEST POSTED STRONG RESULTS IN ALL KEY OPERATING MEASURES.

HISTORY *of* GROWTH

AVERAGE DAILY PRODUCTION
(000s boe per day)



RESERVES; PROVEN & PROBABLE (Million boe)



UNDEVELOPED LANDS
(Thousands of net acres)

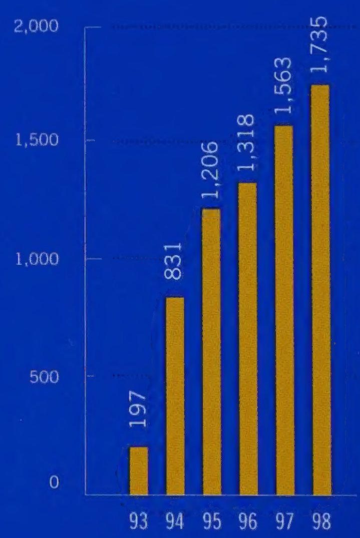
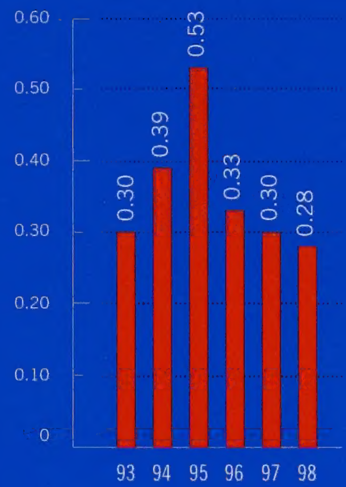


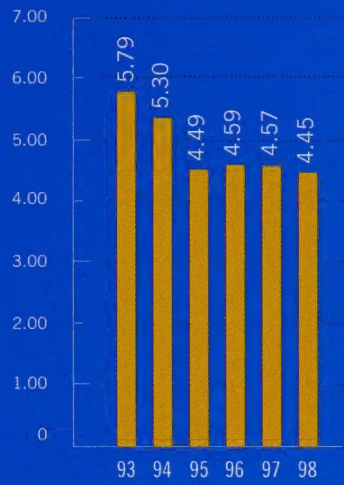
Photo: Natural Gas Plant at Minnehik-Buck Lake

COST CONTROL

GENERAL & ADMINISTRATIVE EXPENSES Net ($/boe)

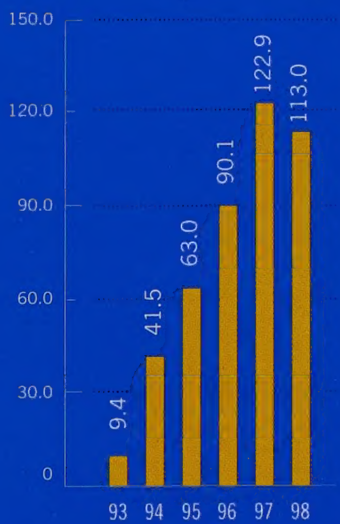


OPERATING COSTS ($/boe)

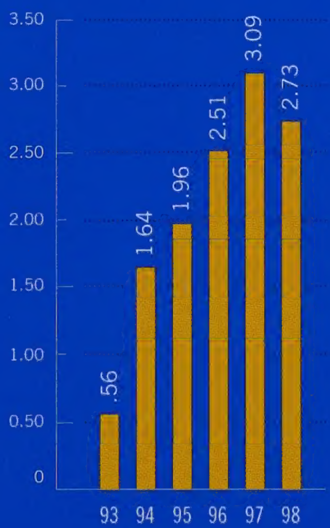


PROFITABILITY

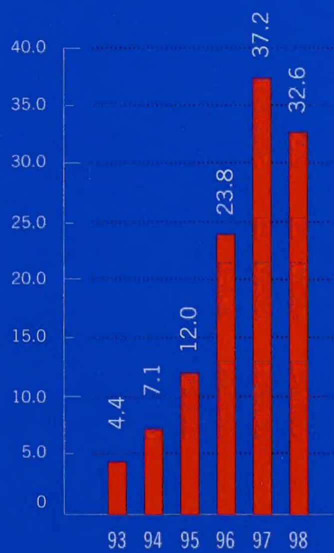
CASH FLOW ($ millions)



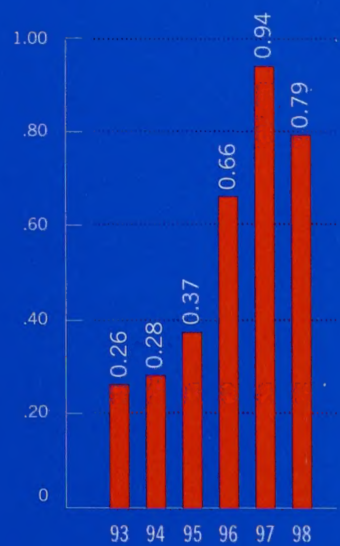
CASH FLOW PER SHARE ($ basic)

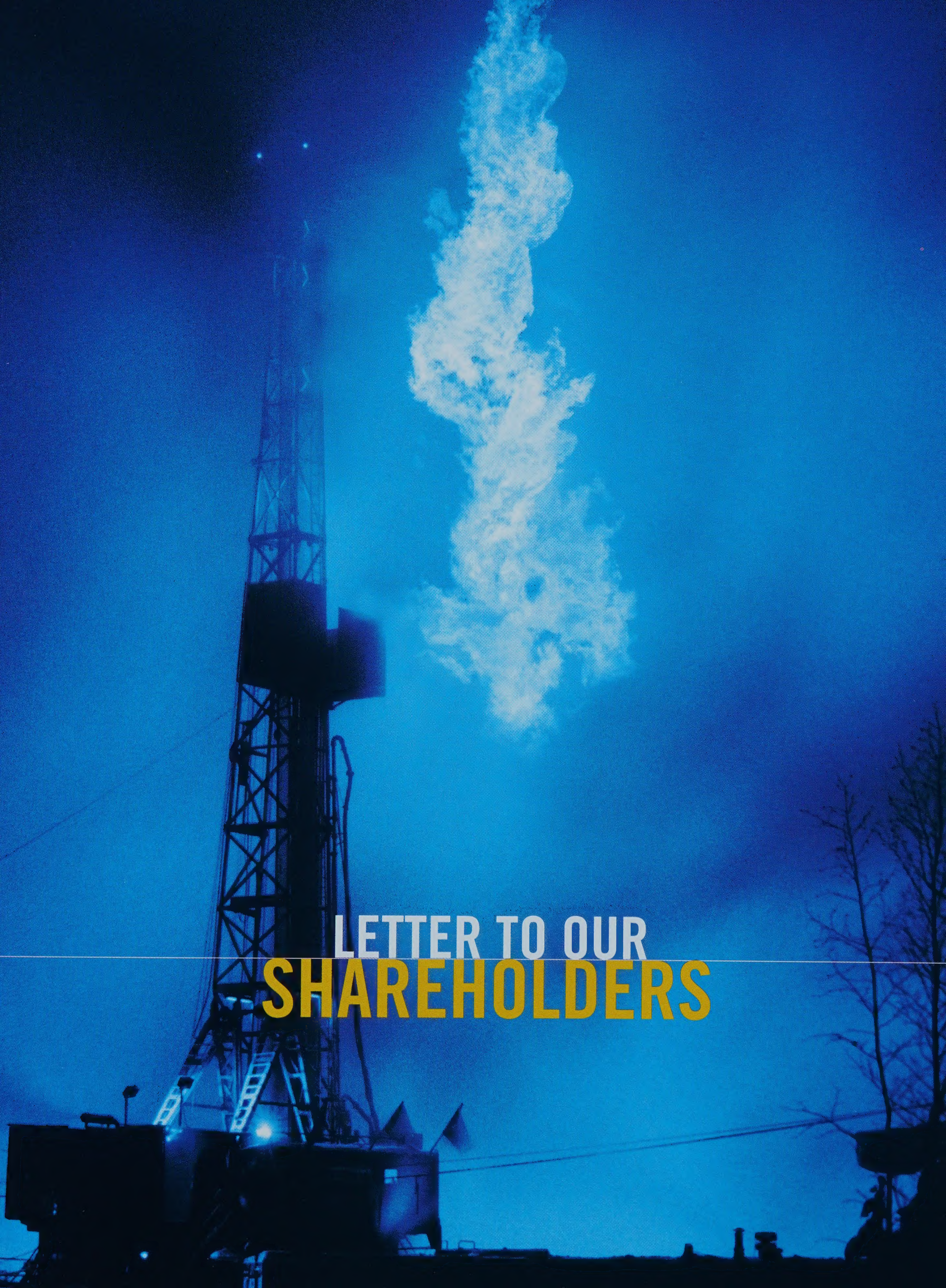


NET INCOME ($ millions)



NET INCOME PER SHARE ($ basic)





LETTER TO OUR SHAREHOLDERS

LETTER TO OUR SHAREHOLDERS

1998 PERFORMANCE:

Penn West's very strong results for 1998 bring our track record of financial and operating success to six successive years and stand as solid confirmation of Penn West's long-term strategy to achieve and sustain growth in production, reserves, cash flow and net income. Our performance during 1998 stands as testament to the efforts of Penn West's team of employees and managers, who sustained the Company's growth in a very challenging environment, in which the average crude oil price was fully 29 percent lower than the year before.

Penn West's ability to sustain growth during a prolonged period of below-average crude oil prices demonstrates that Penn West is profitable throughout the cycle in commodity prices. This bodes well for resumed acceleration of cash flow and net income following even a modest recovery in the commodity price.

Photo on reverse: Unlocking Wildboy's potential

PROFITABLE THROUGH THE CYCLE

In 1998, production reached an average of 32,400 boe per day, an increase of 11 percent over 1997. Of this total, 184 mmcf per day, or about 57 percent, was natural gas. This volume increase was generated almost entirely through the drillbit. Crude oil and natural gas liquids production totalled 14,000 bbls per day, an increase of 11 percent over 1997, driven mainly by a strategic acquisition completed in late 1998. Penn West exited 1998 with total production of 36,500 boe per day, of which 200 mmcf per day was natural gas and 16,500 bbls per day was crude oil and natural gas liquids.

Penn West's continued growth in production volumes, our concentration on growth in natural gas, and our programs of cost reductions enabled the Company to achieve very favourable financial results, despite facing the most challenging oil price environment to confront the industry since Penn West's management team took control of the Company in late 1992.

Despite increases in production volumes and due to the dramatic fall in crude oil prices experienced in 1998, Penn West generated cash flow in 1998 of $113 million ($2.73 per share), a modest decrease of eight percent from the record level of $123 million ($3.09 per share) achieved in 1997. Net income for 1998 was $32.6 million ($0.79 per share), down 12 percent from the $37.2 million ($0.94 per share) generated in 1997.

We continued to exercise prudence with Penn West's balance sheet through 1998. This is always important, but becomes crucial in an environment of low prices, when a company can become trapped by a rapidly increasing relative debt burden.

During 1998, to help maintain a strong balance sheet and to accelerate an increase in production of natural gas, Penn West completed an equity issue that raised a total of $80 million. At year-end 1998, total debt and working capital was $237 million, resulting in a debt to cash flow ratio of 2.1:1, which we consider prudent in the current price environment.

OUR STRATEGY: UNWAVERING PRINCIPLES CREATING A FOUNDATION FOR GROWTH

Penn West's 1998 program and results were based on adherence to the Company's long-term strategy, formulated by our management team in 1993 and implemented successfully each year since then.

IN 1998, PENN WEST FOCUSED ITS CAPITAL BUDGET ON INCREASING NATURAL GAS PRODUCTION VOLUMES. NATURAL GAS-RELATED ACTIVITIES ACCOUNTED FOR MORE THAN TWO-THIRDS OF PENN WEST'S 1998 CAPITAL BUDGET OF $249 MILLION, AND THE MAJORITY OF OUR 143 NET WELLS DRILLED.

Penn West's strategy, discussed in detail in the Exploration, Development and Operations section of this report, takes account of the cyclical nature of commodity markets and remains valid in all phases of the cycle. That is why Penn West's 1998 operations required only fine-tuning instead of any sharp change in direction, and why the Company was able to generate strong operating and financial results in a challenging environment.

Penn West's base of undeveloped land increased to 1.7 million net acres in 1998, concentrated within our five Core Areas of activity: the Northern Area, the Peace River Arch Area, the Central Area, the Plains Area and the Southeast Saskatchewan Area.

These five areas represent a strong foundation for the Company, generating production and cash flow, and providing a range of already-producing and geologically promising undeveloped natural gas and crude oil prospects. These characteristics allow Penn West to balance exploration and development activities to take advantage of prevailing market conditions, while continuing to build reserves for long-term growth.

IMPLEMENTATION: SCALE, FLEXIBILITY, RESULTS

As Penn West continues to grow, the Company is able to implement the key principles of its long term strategy more and more effectively. Our scale provides the Company with the flexibility needed to adjust operations rapidly to take the best possible advantage of pricing signals.

In 1998, Penn West focused its capital budget on increasing natural gas production volumes. Natural gas-related activities accounted for more than two-thirds of Penn West's 1998 capital budget of $249 million, and the majority of our 143 net wells drilled.

We achieved strong success at our Wildboy property in Northeast B.C. Our winter 1998 drilling program, which included five horizontal wells, achieved average daily production volumes of 25 mmcf of natural gas during 1998 at high netbacks and low operating costs. Production at Wildboy, a grass-roots play when Penn West began exploration activities there in 1994, is scheduled to increase to 55 mmcf per day of natural gas by April 1999. A vigorous program of exploration drilling continues to identify new reserves on Penn West's 205,000 net acres of undeveloped land in the area.

Together with development drilling programs at our other key natural gas properties, such as Boyer and Wainwright, Penn West increased natural gas production to 200 mmcf per day at year-end.

Going into 1998, Penn West had planned to focus its crude oil related expenditures on oil development in the Plains Area. By mid 1998, it became clear that crude oil prices would not, as widely forecast, recover even modestly by year-end 1998. We then curtailed development drilling for oil and focused on gas development opportunities in the Plains, while maintaining our oil exploration program. As oil prices continued to deteriorate through the second half of the year, Penn West began to focus on evaluating opportunities for acquiring producing crude oil properties.

STRATEGIC ACQUISITION

During the second half of 1998, Penn West acquired significant volumes of oil production in our Central Area. The portfolio of properties represented an opportunity to significantly increase our production of light-gravity, sweet, Edmonton benchmark crude oil.

The acquisition was concluded in December 1998. At a cost of $73 million, Penn West acquired in excess of 4,000 boe per day of production consisting of 3,200 bbls per day of light crude oil and natural gas liquids and 8 mmcf per day of natural gas.

This strategic acquisition surrounds our Minnehik-Buck Lake property. The acquisition allows Penn West to expand its operational base in this area and to reduce unit operating costs by consolidating field facilities and increasing the utilization rate of field processing and gathering facilities.

INCREASING RESERVES AND REDUCING COSTS

Penn West's combined natural gas and crude oil exploration, development and acquisition program during 1998 added reserves of 42.2 million boe. These additions represented 360 percent of total production for the year. Penn West's reserves provided a reserve life index of 10.7 years in 1998.

Reducing costs was a foremost objective through 1998 at all of Penn West's operations. Cost control, while vital for long-term success, becomes particularly important at a time of reduced commodity prices and netbacks. Penn West controlled both finding and operating costs in 1998.

Average finding costs per boe of proven reserves added in 1998 stood at $6.24 per boe compared to $6.67 per boe in 1997. Unit operating costs were $4.45 per boe in 1998, compared to $4.57 per boe in 1997. This decrease of $0.12 per boe, seemingly modest, generated a direct addition of more than $1.4 million to Penn West's bottom line in 1998. Penn West achieved unit general and administrative costs of $0.28 per boe of production in 1998, down from $0.30 per boe in 1997.

THE YEAR AHEAD: OPTIMISM ON NATURAL GAS

Penn West is basing its plans for 1999 on an average oil price for the year of U.S. $13.50 per barrel of W.T.I and on a forecast average natural gas price of CDN $2.40 per thousand cubic feet at the wellhead. The Company continues to

believe that the near-term outlook for natural gas pricing is strong, as the U.S. export market continues to grow and the supply/demand balance for export pipeline capacity out of Alberta continues to improve.

Penn West will operate through 1999 much as it did in 1998. Our 1999 capital program of $195 million calls for drilling a total of 160 net wells. Our drilling program should once again more than replace the reserves produced. We will continue to focus the majority of our planned capital expenditures on building natural gas production and reserves. We will continue to conduct prudent and cost-effective exploration for new oil reserves at our existing properties, while remaining watchful for signs that the pricing environment is starting to improve, the signal to begin increasing crude oil production volumes.

Penn West plans to achieve daily average production for 1999 of 39,000 boe per day, including 240 mmcf per day of natural gas and 15,000 bbls per day of crude oil and liquids. This will represent an increase in natural gas production of 30 percent over 1998 volumes, and an increase in crude oil and liquids production of seven percent.

We will continue to work diligently to maximize netbacks by reducing unit costs, particularly operating costs. Our goal for 1999 is to average less than $4.45 per boe in operating costs. We will remain open to opportunities for cost-effective acquisitions of reserves, production and lands.

Above all, we will continue to safeguard the integrity of Penn West's balance sheet, a position that has to date ensured Penn West's ability to sustain profitable growth despite the ongoing challenges facing our industry.

Thanks to the soundness of Penn West's long-term strategy, and due to the solid achievements posted in 1998, we remain tremendously optimistic about the Company's prospects through 1999 and beyond.

We would like to take this opportunity to reiterate our thanks to Penn West's team of employees. Without their commitment, vision and determination to achieve results, the Company's performance would not have been possible. We also thank our Board of Directors for their ongoing guidance and counsel.

On behalf of the Board of Directors,

N. Murray Edwards
Chairman

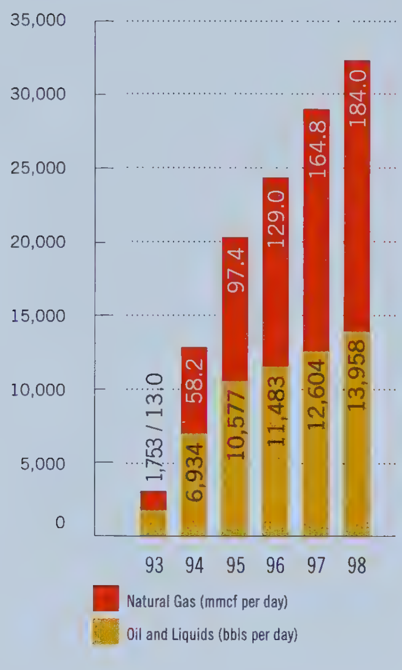
William E. Andrew
President

Calgary, Alberta
March 26, 1999

EXPLORATION
DEVELOPMENT AND OPERATIONS

EXPLORATION, DEVELOPMENT AND OPERATIONS

AVERAGE DAILY PRODUCTION
(boe per day)



In 1998, Penn West's program of multi-year, full cycle exploration was put to the test, and met with strong success in all key measures even as crude oil prices were fully 29 percent below the average of the previous year. By continuing to emphasize growth in natural gas production, and by focusing intensively on reducing operating costs, Penn West was able to maximize available netbacks, maintaining both operational and financial strength.

By tailoring the Company's efforts to best take advantage of the price environment, without departing from its long-term strategy, Penn West was able to continue on its now six-year-long path of growth in production and reserves.

During the year Penn West's natural gas exploration program achieved a double-digit increase in production. Oil production was also up significantly at year-end through a strategic acquisition of producing properties in the Central Area. The Company's exploration, development and acquisitions identified new reserves of oil and natural gas that represented about 360 percent of total 1998 production.

This program will continue through 1999, while the Company remains alert to any improvement in the crude oil price.

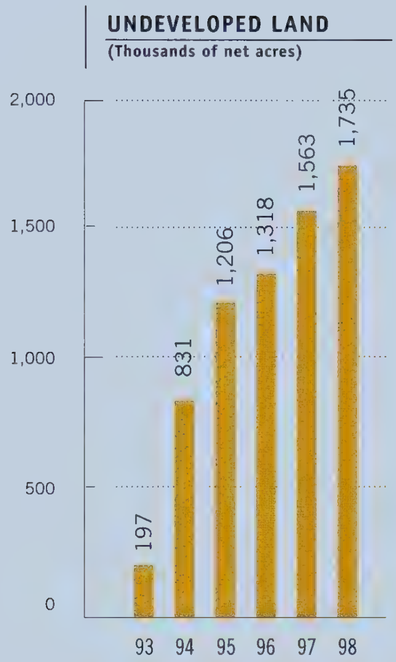
STRATEGY

Penn West's strategy is to sustain long-term growth by achieving continual, year-over-year, cost effective increases in production and reserves. Penn West has remained profitable throughout the inevitable ups and downs in the price cycles of its key commodities by implementing and adhering to a number of effective operating principles. During 1998, this strategy enabled Penn West to achieve strong results in all key operating measures. The main principles of this strategy are described in the discussion that follows.

Large Undeveloped Land Base

Undeveloped land is the foundation for an oil and natural gas producer's long-term growth. Through a combination of Crown purchases, property swaps and strategic acquisitions, Penn West has assembled an undeveloped land base that at year-end 1998 had grown to more than 1.7 million net acres.

Previous page:
Extending Penn West's natural gas sales pipeline at Wildboy



The Company's undeveloped land base is concentrated in five Core Areas of activity in western Canada. This undeveloped land base has been structured to provide an abundance of natural gas and oil prospects that are, in aggregate, balanced in terms of commodity type, risk, productivity and reserves potential.

At one end are low risk, shallow depth prospects adjacent to existing infrastructure that help the Company to maximize current production and cash flow. At the other end are deeper, higher impact prospects in less explored areas that promise longer-term growth in reserves, higher netbacks and low operating costs. In-between lie proven producing properties that contain extensive additional potential for development of multi-zone natural gas and oil-bearing formations, thereby allowing the Company to continually lower operating costs by maximizing utilization of existing infrastructure.

3 UNDEVELOPED LAND BASE

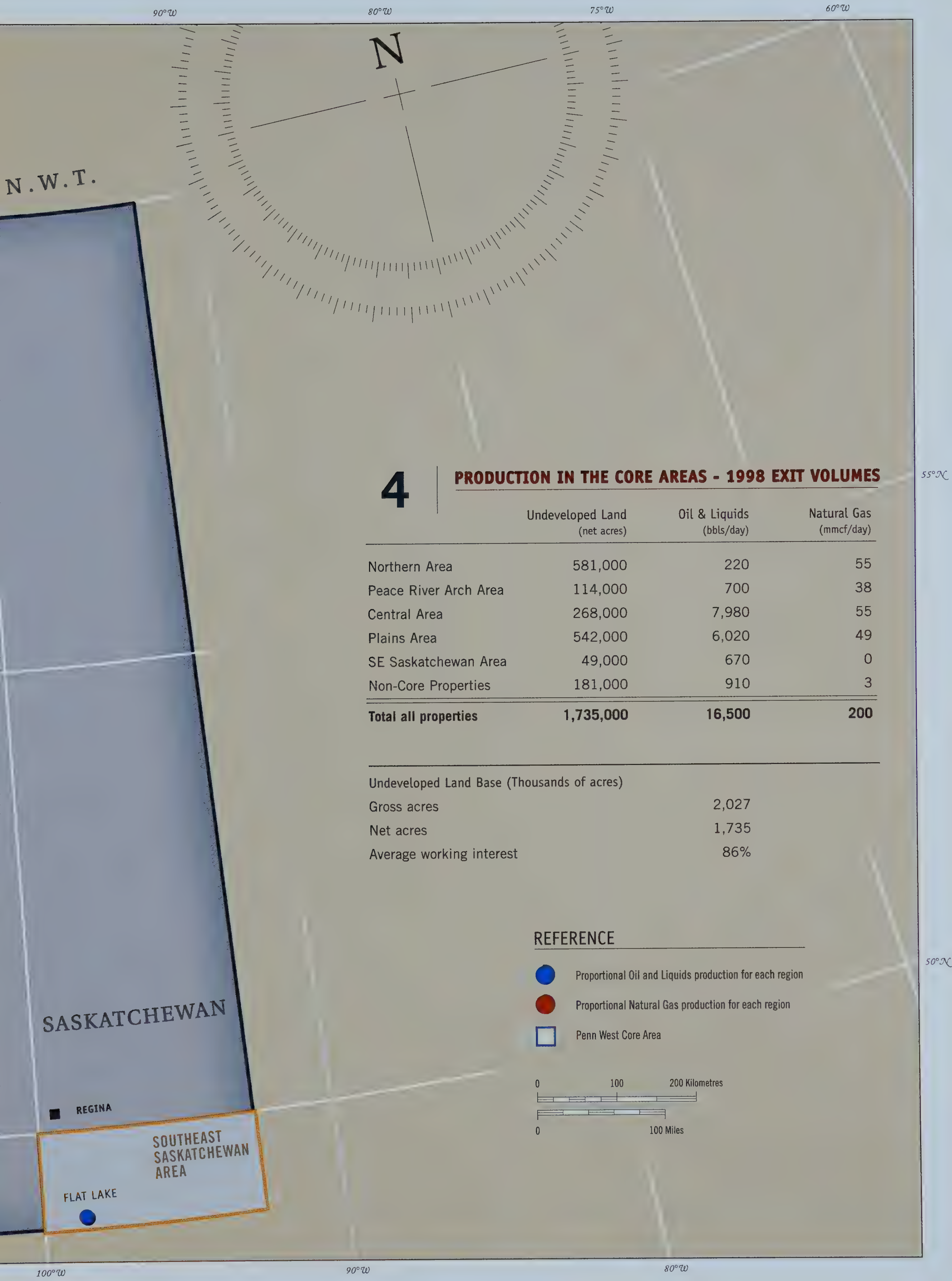
(Thousands of acres)

	1998	1997	1996
Gross acres	2,027	1,856	1,535
Net acres	1,735	1,563	1,318
Average working interest (%)	86	84	86

Focus Activities on Core Areas

Penn West focuses its exploration, development and production activities on its five Core Areas in the Western Canada Sedimentary Basin. This Core Area diversity mitigates geological and commodity risks, while enabling the Company to achieve a commanding land position in each chosen area, facilitating cost effective operations. Penn West conducts substantial geophysical work at each of its chosen near-term development prospects, including lead shoots in prospective areas, close-in 2-D and 3-D seismic data acquisition on drilling prospects, and re-interpretation of existing seismic data stored in Penn West's proprietary database.

125°W
120°W
115°W
110°W
60°N
55°N
50°N
NORTHERN AREA
WILDBOY
BOYER
PEACE RIVER ARCH AREA
BUICK CREEK
FORT ST. JOHN
PROGRESS
POUCE COUPE
SADDLE HILLS
CENTRAL AREA
HEART RIVER
TANGENT
PRINCE GEORGE
PEMBINA
MINNEHIK BUCK LAKE
FERRIER
REDWATER
EDMONTON
WAINWRIGHT
PLAINS AREA
ESTHER
HOOSIER
CALGARY
BRITISH COLUMBIA
ALBERTA



4 PRODUCTION IN THE CORE AREAS - 1998 EXIT VOLUMES

	Undeveloped Land (net acres)	Oil & Liquids (bbls/day)	Natural Gas (mmcf/day)
Northern Area	581,000	220	55
Peace River Arch Area	114,000	700	38
Central Area	268,000	7,980	55
Plains Area	542,000	6,020	49
SE Saskatchewan Area	49,000	670	0
Non-Core Properties	181,000	910	3
Total all properties	**1,735,000**	**16,500**	**200**

Undeveloped Land Base (Thousands of acres)	
Gross acres	2,027
Net acres	1,735
Average working interest	86%

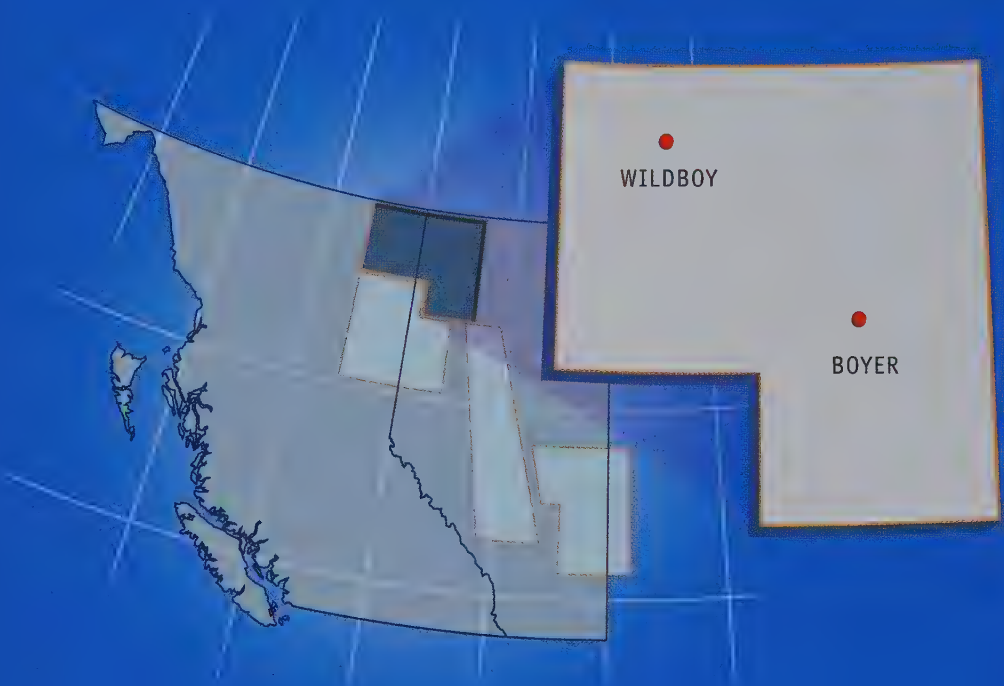
REFERENCE

- Proportional Oil and Liquids production for each region
- Proportional Natural Gas production for each region
- Penn West Core Area

0 100 200 Kilometres

0 100 Miles

REVIEW OF CORE AREAS: NORTHERN AREA

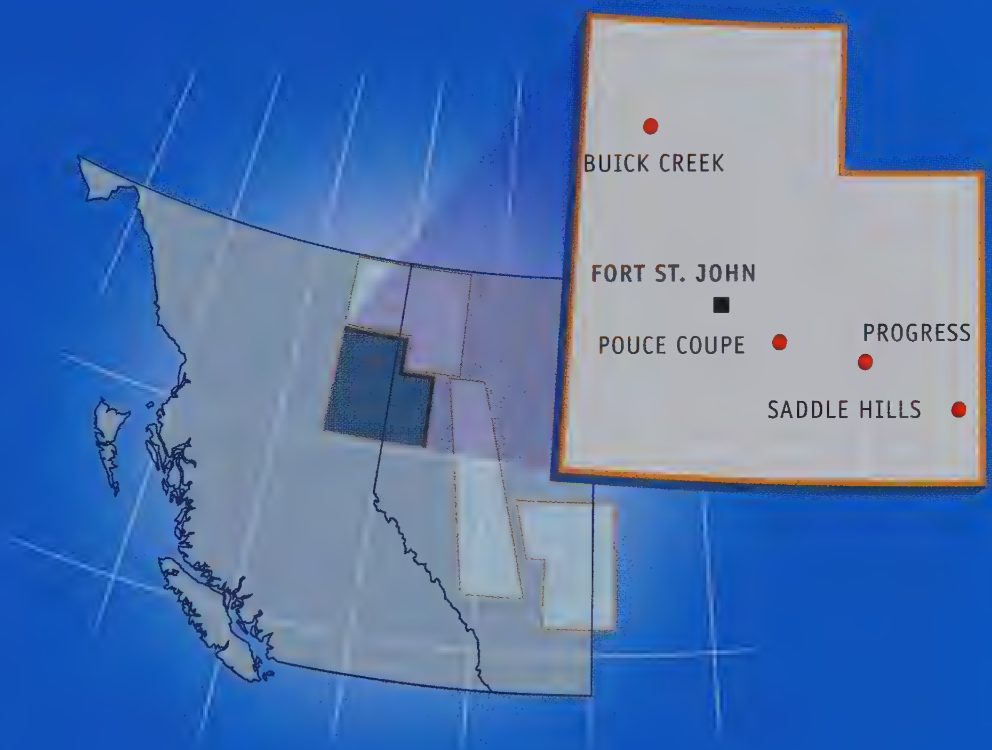


The Northern Area now generates 28 percent of Penn West's natural gas production, a rapid increase from its grass-roots status only five years ago. The region, which includes one-third of Penn West's undeveloped land, is one of the least explored areas in the Western Canada Sedimentary Basin. It contains potential for prolific, multi-zone natural gas finds, and provides some of the Company's best prospects for continued long-term growth in natural gas production and reserves.

5 MAJOR PRODUCING FIELDS IN THE NORTHERN AREA

	Undeveloped Land (net acres)	Oil & Liquids (bbls/day)	Natural Gas (mmcf/day)	Total Production (boe/day)
Boyer	309,000	150	32	3,350
Wildboy	205,000	40	22	2,240
Other	67,000	30	1	130
Total for Area	**581,000**	**220**	**55**	**5,720**

PEACE RIVER ARCH AREA

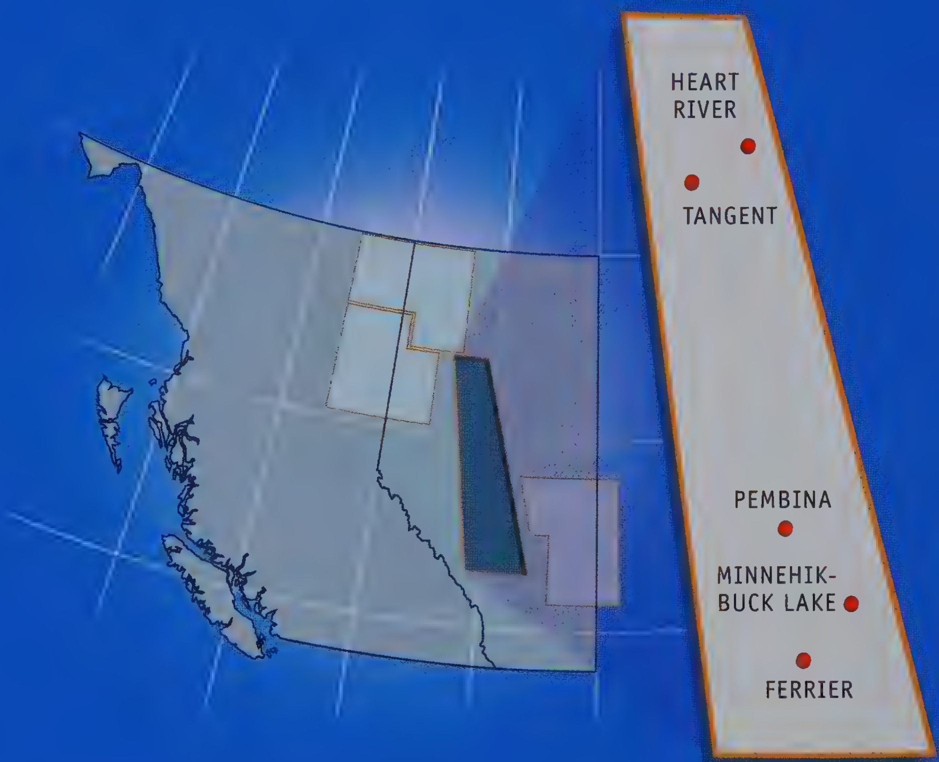


Penn West's Peace River Arch Area generates 19 percent of the Company's natural gas production and four percent of crude oil production. Our efforts in the area are focused primarily on the Triassic age sediments which provide most of the existing production in the area.

6 MAJOR PRODUCING FIELDS IN THE PEACE RIVER ARCH AREA

	Undeveloped Land (net acres)	Oil & Liquids (bbls/day)	Natural Gas (mmcf/day)	Total Production (boe/day)
Progress	14,000	340	9	1,240
Saddle Hills	1,000	10	4	410
Buick Creek	32,000	190	14	1,590
Pouce Coupe	22,000	30	3	330
Other	45,000	130	8	930
Total for Area	**114,000**	**700**	**38**	**4,500**

CENTRAL AREA



Penn West's Central Area is a proven region that provides strong potential for growth in production and reserves of both oil and natural gas. The Central Area is Penn West's largest producing region, generating 28 percent of Penn West's natural gas production and 48 percent of our oil and liquids production.

7 MAJOR PRODUCING FIELDS IN THE CENTRAL AREA

	Undeveloped Land (net acres)	Oil & Liquids (bbls/day)	Natural Gas (mmcf/day)	Total Production (boe/day)
Minnehik-Buck Lake	65,000	2,500	31	5,600
Pembina	3,000	2,400	5	2,900
Ferrier	9,000	970	6	1,570
Tangent	44,000	350	1	450
Heart River	41,000	-	9	900
Other	106,000	1,760	3	2,060
Total for Area	**268,000**	**7,980**	**55**	**13,480**

PLAINS AREA AND SOUTHEAST SASKATCHEWAN AREA

The Plains Area is Penn West's second largest producing region, thanks to the Company's commanding land position of more than 540,000 net undeveloped acres. The Plains Area contributed 36 percent of Penn West's oil production and 25 percent of our natural gas production at year-end 1998. The area offers many years of further low-risk, shallow depth oil and natural gas exploration and development opportunities.

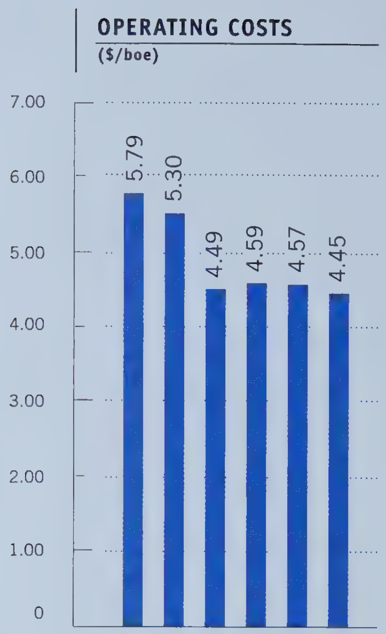
8

MAJOR PRODUCING FIELDS IN THE PLAINS AREA

	Undeveloped Land (net acres)	Oil & Liquids (bbls/day)	Natural Gas (mmcf/day)	Total Production (boe/day)
Wainwright	156,000	2,270	28	5,070
Esther	190,000	1,300	9	2,200
Redwater	2,000	790	0	790
Hoosier	91,000	460	2	660
Other	103,000	1,200	10	2,200
Total for Area	**542,000**	**6,020**	**49**	**10,920**

MAJOR PRODUCING FIELDS IN SOUTHEAST SASKATCHEWAN AREA

Flat Lake	49,000	670	-	670



High Working Interests and Operatorship

By exercising direct operational control over field activities, Penn West is able to react quickly to changing market conditions while working continually to reduce development and operating costs. The Company currently operates 75 percent of its natural gas and oil production. Maintaining a high working interest maximizes the financial impact of natural gas and oil discoveries. At the end of 1998, as a base for future growth, Penn West had an undeveloped land base of 1,735,000 net acres, with an average working interest of 86 percent.

Disciplined Cost Control

In order to achieve profitable growth throughout the commodity price cycle, it is critical to achieve low costs. This is never more true than in a period of low prices. Penn West, always mindful of maintaining low costs in all categories - finding, operating and general and administrative - focused intensely on further reducing its unit costs during 1998.

Penn West was successful last year in containing and reducing costs, thereby generating strong earnings, even in an environment of depressed oil prices. Penn West has maintained low and, in most cases, declining unit costs in all key areas, including finding, operating and general and administrative, thereby maximizing cash flow available for reinvestment and for creation of long-term shareholder value.

Operational Agility

Due to the cyclical nature of commodity prices, Penn West's management has incorporated the ability to respond rapidly to changes in oil and natural gas prices into its long-term strategy. What this means in practice is building an inventory of prospects large enough so that, when the price of one commodity falls, production can be increased in the more favourably priced commodity, while maintaining a financial base strong enough to permit cost effective acquisitions of production in the other commodity.

The Company's sustained growth has given it the financial strength, the scale of operations and the diversity of prospects to allow Penn West to adjust its activities as required. During the first quarter of 1998, Penn West responded to falling crude oil prices by increasing its focus on natural gas development, while conducting a modest oil exploration program to place prospects in inventory. Then, as industry conditions weakened through the fourth quarter of the year, Penn West used its financial strength to complete a significant acquisition of producing oil properties. This ability to adapt to changes in the business environment is a key factor behind Penn West's profitability throughout the commodity cycle.

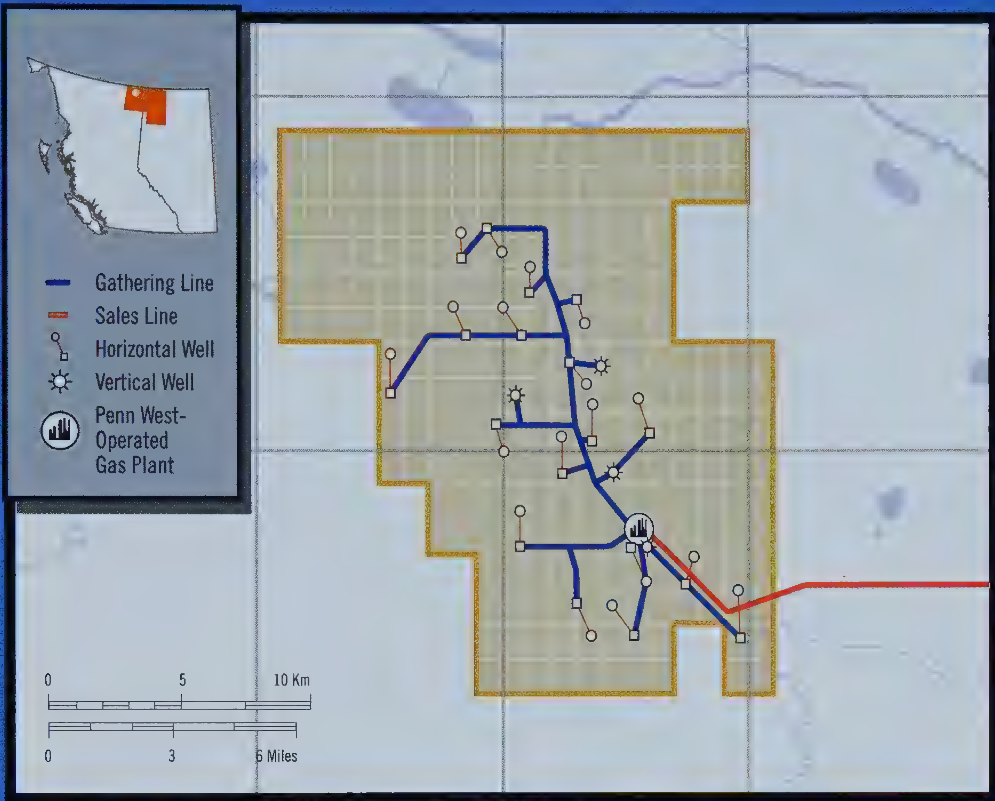
1998 CAPITAL PROGRAM

Penn West's capital program for 1998 totalled $249 million. Of this total, $150 million or 60 percent was spent on exploration and development, and $99 million or 40 percent was spent on net acquisitions. During 1998, the capital budget funded a program of 143 net wells. As always, Penn West continued to build its base of undeveloped land.

9 CAPITAL EXPENDITURES

($ millions)

	1998	1997	1996
Land	$ 13.9	$ 16.3	$ 12.0
Net acquisitions	99.1	59.6	7.9
Drilling and completions	64.7	56.2	36.5
Facilities and well equipping	60.6	38.3	38.3
Geological and geophysical	10.3	8.6	6.8
Other	0.4	0.4	0.3
Capital expenditures	**$ 249.0**	**$179.4**	**$101.8**



Penn West has been working on Wildboy as a grass-roots natural gas play for the past five years. Prior to 1998, Penn West assembled a strong land position, conducted extensive seismic work and drilled ten vertical delineation wells to the base of the Jean Marie formation.

Based on the success of this program, five new horizontal wells were drilled and five of the vertical wells were placed on production in early 1998. Commercial production of 25 mmcf per day commenced in April 1998. The primary producing zone at Wildboy is in the Devonian Jean Marie formation, although the area also holds multi-zone potential for natural gas in the Slave Point formation. The first phase of development included construction of a 100 percent working interest compressor station, a gathering system and 32 kilometres of sales pipeline.

Penn West's development approach will ensure low operating costs through the project's life. Since the production at Wildboy is sweet dry natural gas, Penn West has constructed its own facilities to deliver pipeline-quality natural gas, thereby avoiding third-party fees. An all-weather road was also constructed to the Wildboy plant-site to allow year-round vehicular access, reducing costs of moving personnel and minimizing plant downtime.

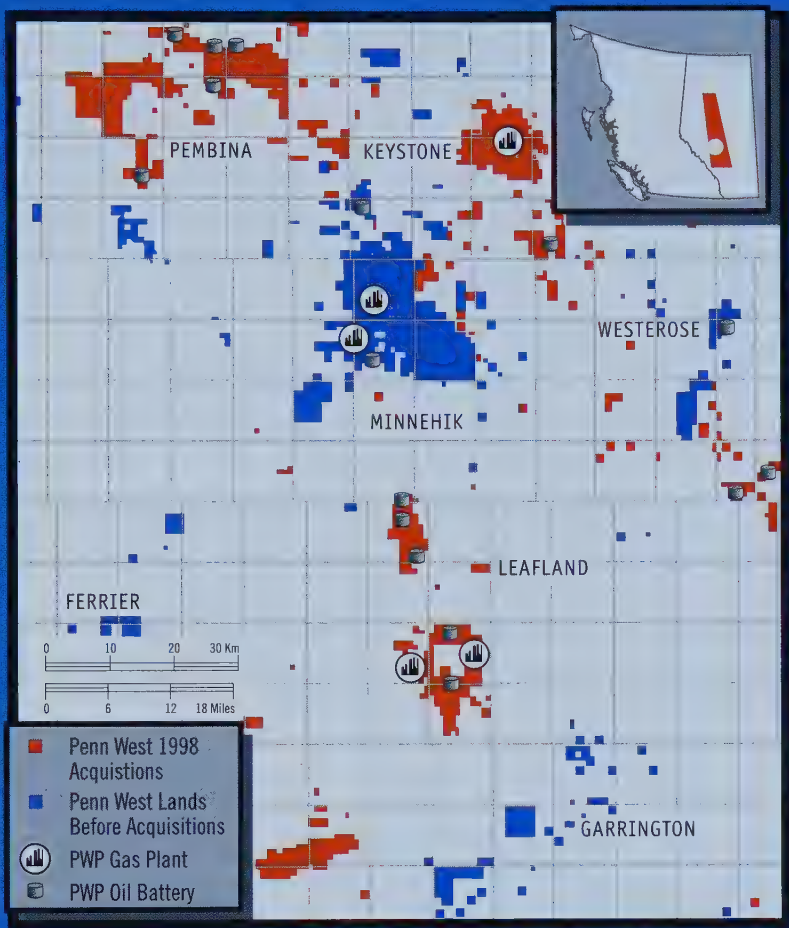
Penn West has been strongly encouraged by Wildboy's performance. By the end of 1998, Penn West had acquired 205,000 net acres of 100 percent working interest undeveloped land at Wildboy. During 1999, Penn West will follow-up with eight to ten additional vertical exploratory wells to continue to define the natural gas reserves underlying the Company's extensive undeveloped land holdings. Second-phase development will bring production to 55 mmcf per day by April. This program will include drilling 13 new horizontal wells plus a corresponding expansion of the central facilities and an extension of the existing sales line to connect directly to the Nova Gas Transmission Ltd. system. The sales line has been sized to handle approximately 75 mmcf per day of production to accommodate the planned third-phase development at Wildboy.

REVIEW OF CORE AREAS

Northern Area

Penn West has assembled a commanding 581,000 acres of undeveloped land in its Northern Area, mainly at Boyer and at Wildboy, which is featured on the opposite page. This land will provide years of development opportunities in existing producing areas and grass-roots exploration prospects for longer term growth. The prospects in the Northern Area are predominantly shallow to medium depth natural gas plays in the Bluesky formation at Boyer and in the Jean Marie formation at Wildboy. Penn West holds a dominant ownership position in facilities and pipelines in the area, allowing further development at low incremental capital and operating costs.

The Boyer project includes a group of natural gas properties that lie in the eastern reaches of the Northern Area close to the Alberta-B.C. border. Low risk development and exploration plays at this project provide important building blocks for Penn West's sustained production growth. In recent years, the Company has installed new processing facilities and gathering systems at the Haig, Lennard Creek and Sousa properties. In 1998, Penn West drilled 26 wells in the Boyer area, increasing production through these facilities to 32 mmcf per day. In 1999, Penn West plans to drill 48 wells to further increase production from the area. Under its medium term development plan, Penn West is evaluating further drilling prospects, reduced well spacing and in-fill drilling in the Boyer area. Over 300,000 net acres of undeveloped land are available at Boyer for future natural gas exploration and development.



In the second half of 1998, Penn West focused on acquisitions of producing properties in and around the Minnehik-Buck Lake area that provided a logical extension to Penn West's existing area operations. The acquisitions will allow Penn West to improve utilization of assets, thereby lowering unit operating costs. The lands acquired also offer medium to long-term development prospects.

The above map highlights the lands that Penn West acquired, in relation to the Company's previous land holdings. The largest of these acquisitions closed in the fourth quarter of 1998 and added in excess of 4,000 boe per day of production, consisting of 3,200 barrels per day of light crude oil and liquids and 8 mmcf per day of natural gas.

Penn West followed up with an acquisition that included undeveloped land and shut-in natural gas wells situated close to the Company's expanded operations. These shut-in natural gas wells will be tied into Penn West's existing facilities during the first half of 1999.

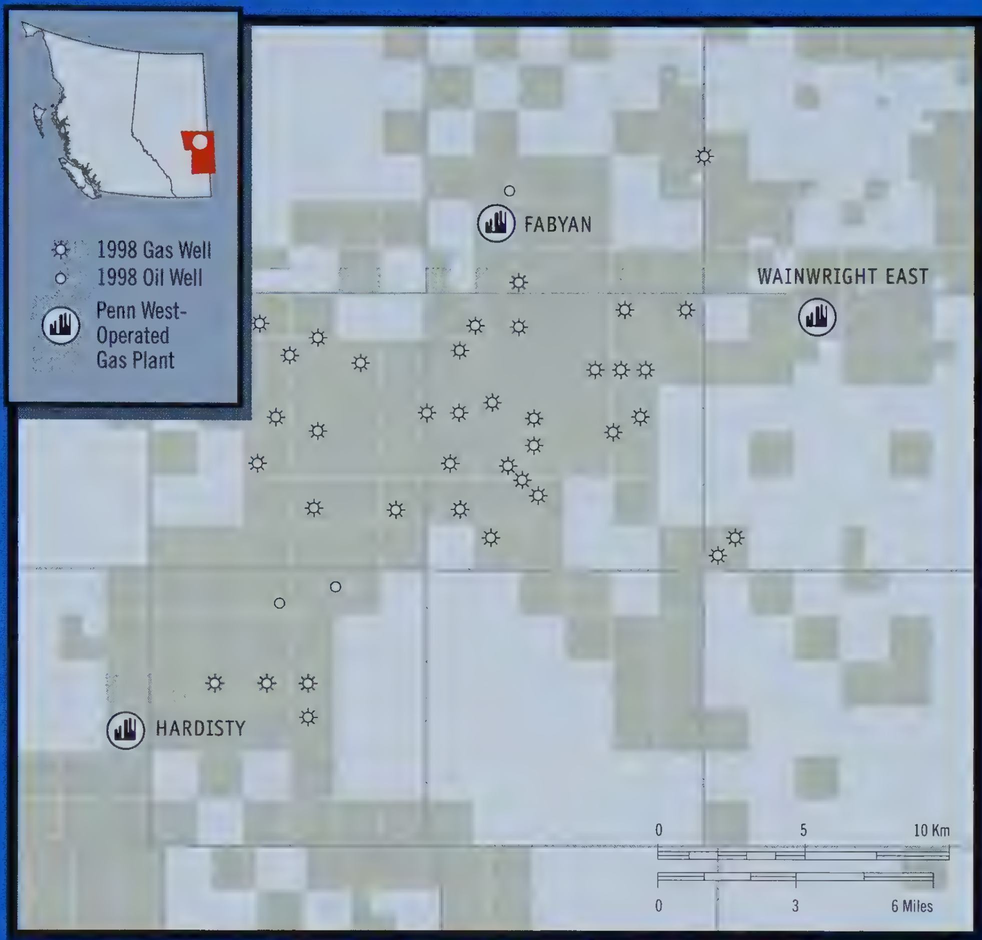
The large majority of the acquired lands lie within a 30-mile radius of Penn West's Minnehik-Buck Lake plant. Immediately following the acquisitions, Penn West took steps to consolidate operations in the region and maximize throughput volumes. This program was aimed at reducing unit operating costs, thereby increasing netbacks. In addition, Penn West gained capacity in three additional natural gas plants in the area, providing opportunities to increase natural gas production by tying in unconnected natural gas wells.

Penn West will continue to be active in the Minnehik-Buck Lake area during 1999, drilling a planned six to eight wells. The targeted natural gas and oil prospects include deep, high-impact exploration drilling and step-out drilling in existing medium depth pools. In the medium term, when crude oil prices recover, the acquired properties also have potential for significant additions of crude oil reserves and production through waterflooding.

Central Area

The Heart River prospect in the Central area has been a key area of focus for Penn West, with five natural gas wells drilled in the area during 1998. Production from this prospect stood at 9 mmcf per day of natural gas at year-end 1998. Penn West continues to be active in the area from a drilling and acquisition standpoint, and now controls a significant infrastructure of pipelines and processing facilities. This infrastructure, along with the Company's undeveloped land base, positions Penn West to continue to add natural gas volumes in this region.

The principal property in the Central Area is Minnehik-Buck Lake, featured on the opposite page. Over the past several years, Penn West has consolidated its land position, overhauled and significantly increased utilization at its key Minnehik natural gas processing plant, conducted geophysical work and launched a multi-year program to develop the region's untapped reserves. Penn West sees numerous opportunities at Minnehik for untapped reserves both above and below the Mississippian age Pekisko natural gas reservoir.



In addition to a solid production base of medium gravity oil production in the Wainwright area, Penn West controls an extensive natural gas infrastructure, including several gas plants and a network of gathering pipelines. This became a key advantage in 1998, when the Company shifted its focus increasingly to natural gas development. The accompanying map highlights the area around the Fabyan natural gas plant, where Penn West was active in 1998, drilling 38 successful natural gas wells and three successful oil wells.

This program increased natural gas production in the Wainwright area from 19 mmcf per day at year-end 1997 to 28 mmcf per day at year-end 1998. Importantly, by focusing on development drilling in close proximity to existing facilities, Penn West was able to bring new production on-stream quickly and at low incremental capital cost, thereby achieving low unit development costs, and to improve utilization of existing facilities, thereby lowering unit operating costs for the entire area.

During 1999, Penn West will continue to increase its inventory of oil prospects to be drilled as oil prices increase.

Plains Area

In previous years in the Plains Area, Penn West drilled discovery wells that identified million-barrel-plus oil finds at Esther and Hoosier. Penn West brought these medium to heavy gravity crude oil finds on production, and then further increased production through extensive use of 3-D seismic and computerized reservoir modeling, step-out drilling and enhanced recovery by waterflooding. In 1998 the focus in the Plains Area was on the development of additional natural gas reserves.

In 1999, Penn West will follow up on its success in the Plains Area with a planned 60 well drilling program focused on further building natural gas production and reserves. For the longer term, Penn West retains tremendous confidence in the potential for future development of medium to heavy gravity crude oil on its Plains Area prospects.

Peace River Arch Area

In 1998 Penn West drilled a total of 12 wells at its Peace River Arch properties, bringing production to 700 barrels per day of oil and liquids and 38 mmcf per day of natural gas. The 1998 program focused on drilling at Saddle Hills, Pouce Coupe, Firebird and Red Creek. Penn West plans to drill up to eight wells at these properties during 1999, targeting natural gas in the Paddy, Cadotte, Doe Creek, North Pine and Doig zones.

Southeast Saskatchewan Area

In 1997 Penn West acquired a portfolio of light gravity crude oil producing properties and undeveloped land in Southeast Saskatchewan. This has been a proven producing region since the 1960s, tapping the widespread, long-life Mississippian formations in the area. Many producing fields offer strong potential for revitalization through horizontal development drilling supported by modern 3-D seismic interpretation, as well as potential for exploratory drilling into deeper formations.

Due to weak crude oil prices in 1998, Penn West limited drilling in the area to two wells, and no further drilling is expected until crude oil prices recover. The Southeast Saskatchewan properties are currently producing 670 bbls per day of crude oil, which is largely unchanged from last year. In the medium term, Penn West will evaluate further opportunities for development and exploratory drilling as crude prices recover.

PRODUCTION, DRILLING AND RESERVES

During 1998, Penn West achieved positive results in the growth of both production and reserves. Penn West drilled a total of 143 net wells, more than two-thirds of which were natural gas-oriented wells. This drilling program, as well as the acquisitions previously described, increased daily average production for the year by 11 percent to 32,400 boe, of which 14,000 bbls per day was crude oil and liquids production and 184 mmcf per day was natural gas production.

Penn West exited 1998 with production of 36,500 boe per day, of which 200 mmcf per day, or 56 percent, was natural gas production, and the balance of 16,500 bbls per day was crude oil and liquids production.

Penn West's exploration and development activities added new reserves totalling 42 mmboe, or 360 percent of total production for the year. This increased Penn West's total reserves by 27 percent, from 111.5 mmboe at the end of 1997 to 141.9 mmboe at the end of 1998. The reserve additions were achieved at an all-in finding and on-stream cost of $5.89 per barrel proven plus probable.

10 DRILLING RESULTS

	1998		1997		1996	
	Gross	Net	Gross	Net	Gross	Net
Natural gas	105	95.2	71	61.7	42	31.4
Oil	23	20.6	69	64.2	63	55.3
Dry	28	27.3	22	20.8	16	15.1
Total	**156**	**143.1**	**162**	**146.7**	**121**	**101.8**
Average working interest (%)		92		91		84
Success rate (%)	82	81	86	86	87	85

11 FINDING AND ON-STREAM COSTS

	1998	1997	1996
Net proven reserve additions (mmboe)	39.8	26.9	19.6
Average cost ($/boe)	6.24	6.67	5.19
Net proven and probable reserve additions (mmboe)	42.2	30.2	19.1
Average cost ($/boe)	5.89	5.93	5.33

12 RESERVE VALUES

	Reserves (Before royalty)		Before Tax Discounted Value of Estimated Future Net Revenues* ($ millions)			
	Oil and Liquids (mmbbls)	Natural Gas (bcf)	0%	10%	15%	20%
Proven producing	51.5	468.4	1,351.1	766.0	638.8	551.4
Proven non-producing	2.8	199.2	344.1	164.1	125.7	100.0
Total proven	**54.3**	**667.6**	**1,695.2**	**930.1**	**764.5**	**651.4**
Probable	10.4	104.4	324.4	107.6	76.3	57.4
December 31, 1998	**64.7**	**772.0**	**2,019.6**	**1,037.7**	**840.8**	**708.8**
December 31, 1997	47.7	638.4	1,528.3	791.9	638.9	536.0
December 31, 1996	40.4	515.0	1,374.9	695.5	554.7	460.8

* The estimate of future net production revenues was based on the price forecast outlined in Table 16, adjusted as required for transportation and quality differentials.

13 OIL AND LIQUIDS RESERVES

(mmbbls, before royalties)

	1998	1997	1996
Proven producing	51.5	37.1	30.4
Proven non-producing	2.8	1.9	2.2
Total proven	**54.3**	**39.0**	**32.6**
Probable	10.4	8.7	7.8
Total	**64.7**	**47.7**	**40.4**
Reserve life index (years)	10.7	10.0	9.4

14 NATURAL GAS RESERVES

(bcf, before royalties)

	1998	1997	1996
Proven producing	468.4	332.8	282.2
Proven non-producing	199.2	206.6	158.1
Total proven	**667.6**	**539.4**	**440.3**
Probable	104.4	99.0	74.7
Total	**772.0**	**638.4**	**515.0**
Reserve life index (years)	10.6	10.1	10.3

15 RESERVE ADDITIONS

(Before royalties)

	Oil and Liquids (mmbbls)			Natural Gas (bcf)		
	Proven	Probable	Total	Proven	Probable	Total
December 31, 1995	26.0	7.6	33.6	399.6	81.9	481.5
Discoveries and extensions	7.6	0.9	8.5	81.9	-	81.9
Acquisitions/dispositions	3.2	(1.0)	2.2	11.2	(1.6)	9.6
Production	(4.4)	-	(4.4)	(45.7)	-	(45.7)
Revisions of prior estimates	0.2	0.3	0.5	(6.7)	(5.6)	(12.3)
December 31, 1996	32.6	7.8	40.4	440.3	74.7	515.0
Discoveries and extensions	7.0	1.2	8.2	121.2	22.6	143.8
Acquisitions/dispositions	4.9	-	4.9	39.8	3.8	43.6
Production	(4.6)	-	(4.6)	(60.0)	-	(60.0)
Revisions of prior estimates	(0.9)	(0.3)	(1.2)	(1.9)	(2.1)	(4.0)
December 31, 1997	39.0	8.7	47.7	539.4	99.0	638.4
Discoveries and extensions	9.0	1.6	10.6	189.2	6.3	195.5
Acquisitions/dispositions	11.8	1.2	13.0	13.9	(0.9)	13.0
Production	(5.1)	-	(5.1)	(67.3)	-	(67.3)
Revisions of prior estimates	(0.4)	(1.1)	(1.5)	(7.6)	-	(7.6)
December 31, 1998	**54.3**	**10.4**	**64.7**	**667.6**	**104.4**	**772.0**

16 PRICE FORECAST

	Oil	Oil	Oil	Natural Gas
	W.T.I. ($US/bbl)	Light Crude at Edmonton ($Cdn/bbl)	Medium Crude at Hardisty ($Cdn/bbl)	Alberta Average Field Price ($Cdn/mmbtu)
1999	14.50	21.07	15.32	2.35
2000	16.32	22.82	17.32	2.50
2001	18.21	24.44	19.19	2.50
2002	20.16	26.40	21.40	2.50
2003	20.57	26.94	21.91	2.50
2004	20.98	27.49	22.44	2.52
2005	21.40	28.05	22.96	2.59
2006	21.83	28.62	23.51	2.67
2007	22.26	29.21	24.07	2.75
2008	22.71	29.81	24.64	2.83
2009	23.16	30.42	25.22	2.92
2010	23.62	31.04	25.81	3.01

17 NET ASSET VALUE

($ millions at December 31, 1998)

	Discount Rate 10%	15%
Reserves (proven plus probable)	$ 1,038	$ 841
Undeveloped land (at $75/acre)	130	130
Proceeds from stock options	40	40
Long term debt and working capital	(237)	(237)
Net asset value	**$ 971**	**$ 774**
Fully diluted shares at year-end (millions)	48.61	48.61
Net asset value per share, fully diluted	$ 19.98	$ 15.92

1999 EXPLORATION AND DEVELOPMENT PROGRAM

Penn West has budgeted a total of $195 million on exploration, development, seismic, land purchases and facilities for 1999, including the drilling of 160 net wells. We are planning to increase natural gas production to an average of 240 mmcf per day during 1999, representing more than 60 percent of Penn West's total production on a barrel of oil equivalent basis.

Despite our natural gas focus, we are fully aware that the day will come when crude oil prices recover, and Penn West intends to be ready to exploit the opportunity. Penn West expects to increase oil and liquids production by about seven percent during 1999 to 15,000 bbls per day. The Company has developed an extensive inventory of potential oil development wells for follow-up when oil prices recover.

Penn West's Northern Area will receive the bulk of natural gas exploration attention, with intensive horizontal natural gas drilling at Wildboy and further exploration and development at our Boyer prospects. In the Peace River Arch area, Penn West will continue building reserves and production of medium depth light

oil and shallow to medium depth natural gas. Our Central Area contains numerous opportunities to increase natural gas, liquids and light oil production, and our Minnehik-Buck Lake and Pembina prospects will see the drilling of six to eight wells. In the Plains Area, we will work to build natural gas production while increasing our inventory of medium to heavy-gravity oil prospects to position ourselves for significant production increases in the future when oil prices recover.

The strength of Penn West's balance sheet entering 1999 will allow the Company to continue building its base of undeveloped land at favourable prices. Sustained weakness in oil prices would also raise the likelihood of opportunities for low-cost acquisitions, and Penn West intends to remain open to transactions that could generate low-cost growth or further the diversification of our land base and prospect inventory.

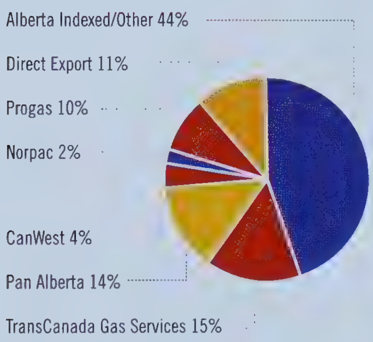
MARKETING

Penn West's marketing approach is based on the following principles:

- Maximize production from existing assets and avoid any shut-in production due to marketing constraints;
- Diversify natural gas pricing on a geographic basis in order to maintain competitive prices; and
- Selectively hedge a portion of revenues to secure capital programs and allow for more efficient reinvestment.

Natural Gas Marketing

NATURAL GAS MARKETING PROGRAM 1998 YEAR-END



The accompanying chart outlines Penn West's natural gas sales portfolio at the end of 1998. Natural gas sales were split 45 percent to gas marketing aggregators and 55 percent to Company direct markets. As additional production volumes are brought on-stream during 1999, it is anticipated that the proportion of Company direct markets will increase to approximately 63 percent of total sales by the middle of 1999. The Company's weighting to Alberta indexed pricing will also increase significantly during 1999, reflecting Penn West's growing base of uncontracted production and limited commitments to export pipelines. Penn West remains optimistic about the outlook for Alberta natural gas pricing following the start-up of the Northern Border and TransCanada pipeline expansions in late 1998. These expansions have helped to de-bottleneck Alberta markets and allow Alberta natural gas prices to track more closely with U.S. prices. This is in contrast to previous years when Alberta natural gas prices traded at a significant discount to U.S. prices. The Alliance pipeline project, which is scheduled to start-up in late 2000, will provide further support for Alberta natural gas prices.

For calendar 1999, Penn West has hedged 70 mmcf per day of natural gas production at an average field netback of approximately $2.40 per mcf. This represents 29 percent of forecasted 1999 production. The Company has also entered into hedges on 19 mmcf per day of natural gas production at an average field netback of $2.65 per mcf for three years starting in November 1999.

Oil and Liquids Marketing

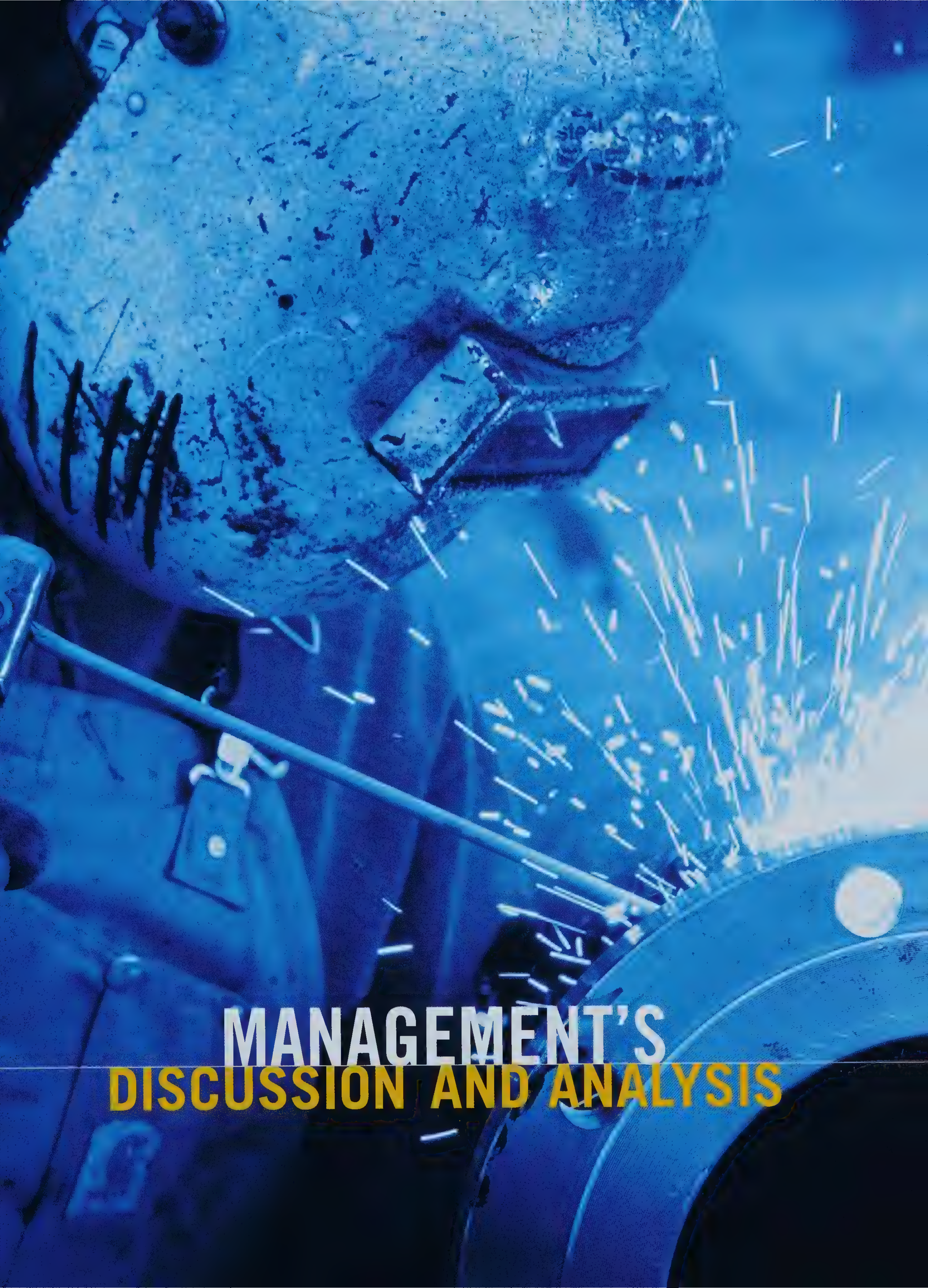
Penn West has only limited exposure to very heavy grades of crude oil. As a result, Penn West was forced to shut-in less than 200 bbls per day of production due to weak heavy oil prices during 1998. In addition, in the fourth quarter of 1998, Penn West acquired 3,200 bbls per day of light oil and liquids production in close proximity to Edmonton. The addition of these producing properties brings Penn West's average crude oil gravity to above 30 degrees API, and the limited transportation costs to the Edmonton market helps to maximize Penn West's realized field prices.

THE ENVIRONMENT

The petroleum industry has initiated programs to minimize the environmental impacts from oil and natural gas exploration and development, and Penn West is fully committed to meeting its responsibilities in this important area. The Company also recognizes the interests of other land users in resource development areas, conducting its operations accordingly. Penn West's Environmental Policy and Environmental Management Plan (EMP) encompasses the full range of air, water, soil and waste issues associated with oil and natural gas development. The EMP includes guidelines to 11 key areas that must be considered in conjunction with oil and natural gas development plans. These guidelines help ensure safe and environmentally sound field operations. Penn West's employees are trained in the objectives and implementation of the EMP.

Penn West conducts a program of detailed inspections, audits and environmental testing to assess the environmental liabilities that will be incurred during the eventual decommissioning and reclamation of its field facilities. Penn West pursues a program of environmental impact reduction aimed at reducing these future corporate liabilities without hampering field productivity. This program, launched in 1994 and ongoing into 1999, includes measures such as removing flare pits, reclaiming spill sites and abandoning unproductive wells.

The oil and natural gas industry is subject to environmental regulations under provincial and federal legislation. This legislation provides for restrictions and prohibitions on releases or emission of various substances produced in association with oil and natural gas operations. In addition, the legislation requires that well and facility sites must be abandoned and reclaimed to the satisfaction of provincial criteria. Compliance with this legislation can require significant expenditures, and a breach of such requirements could result in the imposition of material fines and facility closures. Penn West's environmental programs are monitored to ensure that they comply with all government environmental regulations and with the Company's own environmental policies. The results of these programs are reviewed with Penn West's management and operations personnel through regular stewardship reports.



MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Penn West had another successful year in 1998, maintaining its six-year record of profitable growth and maintaining a strong balance sheet in spite of weak crude oil prices. To provide the Company with the financial strength to continue an aggressive natural gas exploration and development program, and to take advantage of value enhancing property acquisitions, Penn West completed the issuance of four million shares at $20 per share in November 1998. Based on year-end debt plus working capital of $237 million, the Company's debt to trailing cash flow ratio is approximately 2.1:1 and provides a good platform for future growth in shareholder value.

18 OIL AND NATURAL GAS REVENUES

($000s) Years ended December 31,	1998	1997	1996
Oil and liquids	$ 78,555	$ 99,862	$ 91,614
Natural gas	132,184	117,697	82,159
	$ 210,739	**$ 217,559**	**$ 173,773**

19 1998 INCREASES (DECREASES) IN GROSS REVENUES

($000s)

Gross revenues - 1997	$ 217,559
Increase in oil and liquids production	10,729
Decrease in oil and liquids price	(32,036)
Increase in natural gas production	13,735
Increase in natural gas price	752
Gross revenues - 1998	**$ 210,739**

Revenues from oil and liquids decreased by 21 percent to $78.6 million in 1998 from $99.9 million in 1997. This decrease is attributable to the 29 percent decrease in the Company's average liquids price to $15.42 per bbl in 1998 from $21.71 per bbl in 1997. Offsetting the impact of lower prices, the Company's average daily production rose by 11 percent to 13,958 bbls per day in 1998 from 12,604 bbls per day in 1997.

Revenues from natural gas increased by 12 percent in 1998 to $132.2 million from $117.7 million in 1997. The increase in natural gas revenues resulted from a 12 percent increase in average natural gas production to 184.0 mmcf per day in 1998 from 164.8 mmcf per day in 1997, combined with a slight increase in the average natural gas price received by Penn West to $1.97 per mcf in 1998 from $1.96 per mcf in 1997.

Previous page: Welder at Minnehik-Buck Lake natural gas processing plant

20 ROYALTY EXPENSES

Years ended December 31,

	1998	1997	1996
Royalties, net of Alberta Royalty Credit ($000s)	$ 27,160	$ 34,875	$ 29,401
Average cost ($/boe)	$ 2.30	$ 3.29	$ 3.29
Percentage of gross revenues	13%	16%	17%

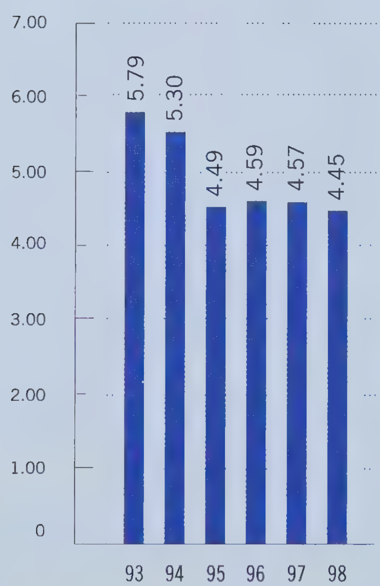
The average royalty rate incurred by Penn West in 1998, net of the Alberta Royalty Credit, was 13 percent, a decrease of three percent from 1997. The average royalty per boe of production decreased by 30 percent to $2.30 per boe from $3.29 per boe in 1997. The rate decrease reflects an oil and liquids royalty rate of 14 percent, down from 18 percent in 1997. The average natural gas royalty rate dropped to 12 percent in 1998 from 15 percent in 1997, due to increased levels of natural gas-related capital expenditures and the related Crown natural gas cost allowance.

21 OPERATING COSTS

Years ended December 31,

	1998	1997	1996
Operating costs ($000s)	$ 52,579	$ 48,555	$ 40,975
Average cost ($/boe)	$ 4.45	$ 4.57	$ 4.59
Percentage (decrease) increase over previous year	(3%)	0%	2%
Percentage of gross revenues	25%	22%	24%

OPERATING COSTS ($/boe)



Penn West operates 75 percent of its total production, providing optimal control over operating methods and costs. In 1998, field operating costs averaged $4.45 per boe, a decrease of three percent from the average cost of $4.57 per boe achieved in 1997. Operating costs for oil and liquids increased by eight percent to $6.51 per bbl in 1998 from $6.00 per bbl in 1997 as a result of reduced oil-related drilling activity. Operating costs for natural gas in 1998 were $0.29 per mcf ($2.90 per boe), a reduction of 17 percent from $0.35 per mcf in 1997, due to increases in natural gas production and more effective use of existing natural gas facilities.

22 NETBACKS

Years ended December 31,

	1998	1997	1996
Oil and liquids			
Production (bbls per day)	13,958	12,604	11,483
Price ($/bbl)	$ 15.42	$ 21.71	$ 21.80
Royalties ($/bbl)	(2.22)	(3.87)	(4.34)
Operating costs ($/bbl)	(6.51)	(6.00)	(5.76)
Netback ($/bbl)	**$ 6.69**	**$ 11.84**	**$ 11.70**
Natural gas			
Production (mmcf per day)	184.0	164.8	129.0
Price ($/mcf)	$ 1.97	$ 1.96	$ 1.74
Royalties ($/mcf)	(0.24)	(0.29)	(0.24)
Operating costs ($/mcf)	(0.29)	(0.35)	(0.35)
Netback ($/mcf)	**$ 1.44**	**$ 1.32**	**$ 1.15**

In 1998, Penn West received an average oil and liquids netback of $6.69 per bbl, a decrease of 43 percent from $11.84 per bbl in 1997. Reduced effective royalty rates and lower operating costs resulted in natural gas netbacks increasing by nine percent to $1.44 per mcf in 1998 from $1.32 per mcf in 1997.

23 GENERAL AND ADMINISTRATIVE EXPENSES

Years ended December 31,

	1998	1997	1996
Gross expenses ($000s)	$ 11,516	$ 10,980	$ 9,491
Operator recoveries ($000s)	(5,979)	(5,412)	(4,678)
Capitalized expenses ($000s)	(2,222)	(2,380)	(1,846)
	$ 3,315	**$ 3,188**	**$ 2,967**
Gross general and administrative-expenses Average cost ($/boe)	$ 0.97	$ 1.03	$ 1.06
Percentage of gross revenues	5%	5%	5%
Net general and administrative expenses - Average cost ($/boe)	$ 0.28	$ 0.30	$ 0.33
Percentage of gross revenues	1.6%	1.5%	1.7%

Gross general and administrative expenses increased due to the increase in staff levels resulting from the Company's expanding asset base and production levels. However, when expressed on a per barrel of oil equivalent basis, the gross general and administrative costs decreased by six percent to $0.97 per boe in 1998 from $1.03 per boe in 1997.

This reduction in costs reflects the improvement in corporate productivity that has been in evidence over recent years. Net general and administrative expenses decreased by seven percent to $0.28 per boe in 1998 from $0.30 per boe in 1997, reflecting the growth in the number and proportion of assets operated by the Company, and related recoveries.

24 FINANCING EXPENSES

($000s) Years ended December 31,

	1998	1997	1996
Interest	$ 12,595	$ 6,745	$ 9,488
Cash flow times interest coverage	10.0	19.2	10.5
Average interest cost ($/boe)	$ 1.06	$ 0.64	$ 1.06
Percentage of gross revenues	6%	3%	5%

Interest expense for the year ended December 31, 1998 amounted to $12.6 million, an increase of 87 percent from $6.7 million in 1997. This increase resulted from higher average debt levels and interest rates experienced in 1998.

25 DEPLETION AND DEPRECIATION

($000s) Years ended December 31,

	1998	1997	1996
Depletion and depreciation	$ 52,428	$ 45,379	$ 39,376
Current site restoration provision	6,488	7,250	3,392
	$ 58,916	**$ 52,629**	**$ 42,768**
Average cost ($/boe)	$ 4.99	$ 4.96	$ 4.79
Percentage of gross revenues	28%	24%	25%

Depletion, depreciation and the site restoration provision increased by 12 percent to a total of $58.9 million in 1998 from $52.6 million in 1997. This was a direct result of increases in the Company's production levels combined with a slight increase in the depletion rate. Average unit costs increased by one percent to $4.99 per boe in 1998 from $4.96 per boe in 1997. These low depletion and depreciation rates reflect Penn West's continued low finding and on-stream costs.

26 TAXES

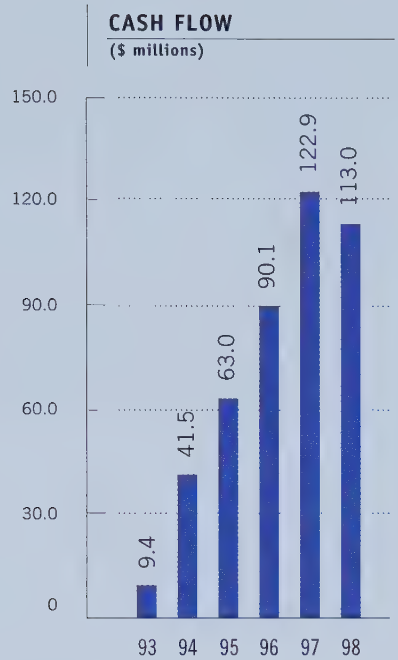
($000s) Years ended December 31,

	1998	1997	1996
Deferred income taxes	$ 21,506	$ 33,054	$ 23,371
Capital taxes	$ 2,080	$ 1,297	964
	$ 23,586	**$ 34,351**	**$ 24,335**
Effective tax rate	42.0%	48.0%	50.5%

27 TAX POOLS

($ millions)

	1998
Undepreciated capital cost (UCC)	$ 155.1
Cumulative Canadian oil and gas property expense (COGPE)	174.0
Cumulative Canadian exploration expense (CEE)	33.3
Cumulative Canadian development expense (CDE)	53.5
Other	11.6
Total tax pools	**$ 427.5**



The provision for deferred income taxes declined by 35 percent to $21.5 million in 1998 from $33.1 million in 1997 as a result of a drop in income before income taxes due to low oil prices, and a reduction of six percent in the Company's effective tax rate to 42 percent in 1998 from 48 percent in 1997. Capital taxes rose by 62 percent in 1998 to $2.1 million from $1.3 million in 1997 due to continued growth in the Company's capital structure.

CASH FLOW AND NET INCOME

Due to weak oil prices, partially offset by increasing production volumes, cash flow from operations declined by eight percent to $113.0 million in 1998 from $122.9 million in 1997. Basic cash flow per share decreased by 12 percent to $2.73 in 1998 from $3.09 in 1997.

Net income dropped by 12 percent to $32.6 million in 1998 from $37.2 million in 1997. Basic net income per share decreased by 16 percent in 1998 to $0.79 from $0.94 in 1997.

28 ITEMS AFFECTING CASH FLOW AND NET INCOME

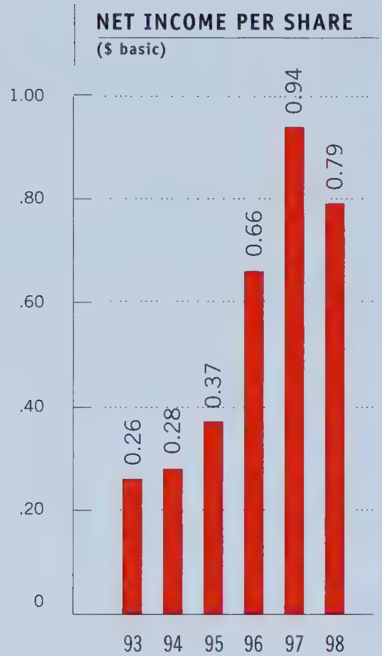
Years ended December 31,

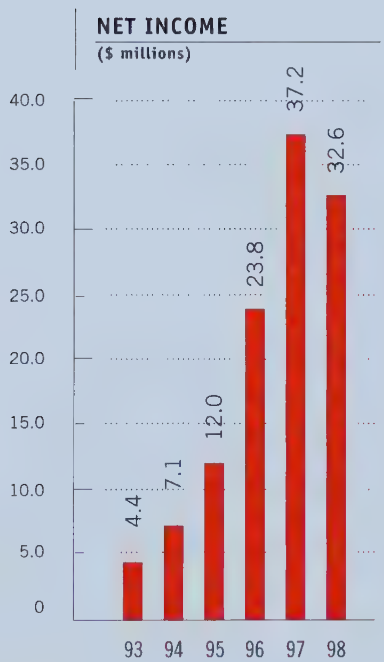
	1998		1997		1996	
	$/boe	%	$/boe	%	$/boe	%
Oil and natural gas	$ 17.84	100.0	$ 20.50	100.0	$ 19.47	100.0
Net royalties	(2.30)	(12.9)	(3.29)	(16.1)	(3.29)	(16.9)
Operating costs	(4.45)	(24.9)	(4.57)	(22.3)	(4.59)	(23.6)
Net operating income	**11.09**	**62.2**	**12.64**	**61.6**	**11.59**	**59.5**
General and administrative	(0.28)	(1.6)	(0.30)	(1.5)	(0.33)	(1.7)
Interest	(1.06)	(6.0)	(0.64)	(3.0)	(1.06)	(5.4)
Capital taxes	(0.18)	(1.0)	(0.12)	(0.6)	(0.11)	(0.6)
Cash flow from operations	**9.57**	**53.6**	**11.58**	**56.5**	**10.09**	**51.8**
Depletion and depreciation	(4.99)	(28.0)	(4.96)	(24.2)	(4.79)	(24.6)
Deferred taxes	(1.82)	(10.2)	(3.11)	(15.2)	(2.62)	(13.5)
Net income	**$ 2.76**	**15.4**	**$ 3.51**	**17.1**	**$ 2.68**	**13.7**

29 CAPITALIZATION

December 31,

	1998		1997		1996	
	$000s	%	$000s	%	$000s	%
Common share equity, at market	$ 747,092	75.9	$ 618,064	77.0	$ 549,962	80.7
Long-term liabilities	249,809	25.4	169,468	21.1	134,880	19.8
Working capital (surplus) deficiency	(12,401)	(1.3)	14,746	1.9	(3,248)	(0.5)
	$ 984,500	**100.0**	**$ 802,278**	**100.0**	**$ 681,594**	**100.0**





Penn West's closing market price on The Toronto Stock Exchange was $16.50 per share in 1998, $15.45 per share in 1997 and $14.00 per share in 1996. Market capitalization rose from $550 million at year-end 1996, to $618 million in 1997 and to $747 million in 1998.

Penn West's strong financial position will allow the production increases planned for 1999 and other programs requiring capital investment to be completed while maintaining a total forecasted debt to cash flow ratio of less than 2:1.

Penn West has an aggregate borrowing limit of $375 million on its loan facility with a syndicate of Canadian chartered banks, on which the Company had drawn $249.8 million at year-end 1998, leaving approximately $125.2 million available. This loan facility is subject to an annual review by the lenders and requires no principal repayments provided that certain covenants with respect to asset coverage tests are met. These asset coverage tests are met within Penn West's reserve base. Penn West had a working capital surplus of $12 million at the end of 1998.

Penn West will fund its 1999 planned capital spending program of $195 million from its cash flow, estimated at $151 million, and from the aforementioned loan facility. The Company has sufficient capital to replace estimated 1999 production and to continue generating longer term growth.

BUSINESS RISKS

The Company's exploration, development, production and acquisition activities are conducted in the Western Canada Sedimentary Basin and involve a number of business risks. These risks include the uncertainty of replacing annual production and finding new reserves on an economic basis, and the instability of commodity prices, foreign exchange rates and interest rates. To the extent practical, these risks are mitigated by the Company by employing highly trained and competent management and staff who manage these risks as follows:

- Balance production portfolio between oil and natural gas;
- Pursue numerous investment opportunities, including:
    - Low risk development projects;
    - Moderate risk exploration plays;
    - Strategic acquisitions; and
- Maintain low finding, operating and general and administrative costs.

The Company's management team believes that these principles, validated through Penn West's six-year track record of growth and profitability, strongly position the Company to continue sustained growth in production volumes and shareholder value.

The oil and natural gas industry is subject to extensive government influence through taxation policies and environmental legislation. Taxation policy has remained stable within a reasonable operating environment; however, there is always the potential for change.

Environmental legislation in western Canada has undergone major revisions that have resulted in environmental standards and compliance becoming more stringent. The Company is committed to meeting its responsibilities to protect the environment wherever it operates and has instituted a series of controls and procedures with respect to environmental protection that meet the standards of the Environmental Code of Practice published by the Canadian Association of Petroleum Producers.

YEAR 2000

The major risk of the Year 2000 issue for Penn West is the potential impact on the Company's ability to produce and market crude oil and natural gas. The role of information technology in the production process includes computerized control systems for both production facilities and marketing networks. To address this and other potential risks, the Company established a Year 2000 Committee with the responsibility to develop and implement an action plan to ensure that computer software and hardware issues are identified and resolved in a timely manner. The process used involves conducting a comprehensive inventory and testing of technological components and software throughout the Company, surveying third party customers and suppliers for Year 2000 readiness, replacing problem hardware and software, and developing contingency plans. Presently, technology inventories have been completed and replacement of non-compliant equipment is well underway. The Company is installing new hardware and software during planned downtime and anticipates completion of the process, including third party surveys and contingency planning, by mid-year 1999. The total expenditures involved in replacing problem hardware and software is anticipated to be under $300,000, a significant portion of which will be capitalized in the accounts.

FUTURE PROSPECTS

Despite dramatically lower oil and liquids prices, Penn West's growth pattern that commenced in 1993 is expected to continue in 1999, with forecast cash flow of $151 million or $3.31 per share, an increase of 33 percent and 21 percent, respectively, over 1998. This planned increase in cash flow is forecast to be achieved through a combination of increased production levels and higher natural gas prices in 1999 over 1998, offsetting the impact of liquids prices that are budgeted to be eight percent lower than those achieved in 1998. The Company has hedged an average of 70 mmcf per day of natural gas for 1999 and has sold forward 19 mmcf per day of natural gas for three years commencing in November 1999.

The results of operations and the forecast noted above are sensitive to changes in production rates, commodity prices, foreign exchange rates and interest rates. The following table summarizes those sensitivities:

30 **SENSITIVITIES**

	Impact On 1999 Cash Flow	Impact On 1999 Net Income
Change of:		
Cdn $1.00/bbl in oil price ($000s)	$ 4,600	$ 2,580
Per common share	$ 0.10	$ 0.06
500 bbls per day in daily oil production ($000s)	$ 2,100	$ 800
Per common share	$ 0.05	$ 0.02
$0.10/mcf in natural gas price ($000s)	$ 6,800	$ 3,810
Per common share	$ 0.15	$ 0.08
5,000 mcf per day in daily natural gas production ($000s)	$ 3,300	$ 1,200
Per common share	$ 0.07	$ 0.03
$0.01 in $U.S./$Cdn exchange rate ($000s)	$ 2,300	$ 1,290
Per common share	$ 0.05	$ 0.03
1% in prime interest rate ($000s)	$ 2,900	$ 1,620
Per common share	$ 0.06	$ 0.04

DIRECTORS AND OFFICERS

A complete listing of the Directors of the Company and related information can be found in the Company's 1999 Information Circular and Proxy Statement under the heading "Election of Directors", which information is incorporated herein by reference. The other officers of the Company are Donald J. Rae, Vice President Exploration, Gerry J. Elms, Treasurer and Secretary, Dale A. Miller, Vice President Production and Engineering and Bryan D. Clake, Vice President Marketing. Mr. Rae has been Vice President Exploration of the Company since January 1997 and prior thereto was Exploration Manager of the Company since August 1993. Mr. Elms has been the Treasurer of the Company since March 1998 and prior thereto was the Controller of the Company since June 1994. Mr. Miller has been Vice President Production and Engineering since May of 1998, and prior thereto was Manager Exploitation since May of 1995 and prior thereto was Senior Production/Operations Engineer since April of 1993. Mr. Clake has been Vice President Marketing since May of 1998, and prior thereto was Manager Marketing since June 1994.

MANAGEMENT'S REPORT

The consolidated financial statements of Penn West Petroleum Ltd. were prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this report is consistent with that shown in the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these consolidated financial statements with management and the auditors and has reported to the Board of Directors. The Board has approved the consolidated financial statements.

Gerry J. Elms
Treasurer and Secretary
March 16, 1999

William E. Andrew
President

AUDITORS' REPORT

To the Shareholders of Penn West Petroleum Ltd.:

We have audited the consolidated balance sheets of Penn West Petroleum Ltd. as at December 31, 1998 and 1997 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Arthur Andersen LLP
Chartered Accountants

Calgary, Alberta,
March 16, 1999

CONSOLIDATED BALANCE SHEETS

($000s)

December 31,	1998	1997
ASSETS		
Current		
Accounts receivable	$ 36,128	$ 31,376
Other	12,266	4,892
	48,394	**36,268**
Property, plant and equipment (Note 2)	745,063	548,511
Total Assets	**$ 793,457**	**$ 584,779**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 35,993	$ 51,014
Bank loan (Note 3)	249,809	169,468
Site restoration and abandonment	16,697	11,785
Deferred income taxes	98,513	78,486
	365,019	**259,739**
Shareholders' Equity		
Capital stock (Note 4)	275,324	189,493
Retained earnings	117,121	84,533
	392,445	**274,026**
Total Liabilities and Shareholders' Equity	**$ 793,457**	**$ 584,779**

Approved on behalf of the Board:

Director

D L Russell

Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

($000s, except per share amounts)

Years ended December 31,	1998	1997
REVENUES		
Oil and natural gas	$ 210,739	$ 217,559
Royalties	(28,547)	(36,102)
Alberta Royalty Credit	1,387	1,227
	183,579	**182,684**
EXPENSES		
Operating	52,579	48,555
General and administrative	3,315	3,188
Interest on long-term debt	12,595	6,745
Depletion and depreciation	58,916	52,629
	127,405	**111,117**
Income before taxes	**56,174**	**71,567**
TAXES		
Deferred income taxes (Note 5)	21,506	33,054
Capital taxes	2,080	1,297
	23,586	**34,351**
Net income	**32,588**	**37,216**
Retained earnings, beginning of year	84,533	47,317
Retained earnings, end of year	**$ 117,121**	**$ 84,533**
NET INCOME PER COMMON SHARE (Note 6)		
Basic	**$ 0.79**	**$ 0.94**
Fully diluted	**$ 0.77**	**$ 0.90**

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

($000s)

Years ended December 31,	1998	1997
OPERATING ACTIVITIES		
Net income	$ 32,588	$ 37,216
Depletion and depreciation	58,916	52,629
Deferred income taxes	21,506	33,054
Cash provided by operating activities	**113,010**	**122,899**
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(258,565)	(194,118)
Expenditures on abandonments	(1,576)	(928)
Proceeds on sales of property, plant and equipment	9,585	14,732
Cash used in investing activities	**(250,556)**	**(180,314)**
FINANCING ACTIVITIES		
Increase in bank loan	80,341	34,588
Issue of common shares	87,669	4,833
Share issue costs	(3,317)	–
(Increase) decrease in non-cash working capital	(27,147)	17,994
Cash provided by financing activities	**137,546**	**57,415**
Increase in cash	–	–
Cash and short-term deposits, beginning of year	–	–
Cash and short-term deposits, end of year	$ –	$ –

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998 and 1997

(all tabular amounts in $000s, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The consolidated financial statements include the accounts of Penn West Petroleum Ltd. (the "Company") and its wholly owned subsidiaries and partnership.

b) Other current assets

Other current assets include deposits, prepayments and inventory valued at the lower of cost and net realizable value.

c) Property, plant and equipment

i) Capitalized costs

The full cost method of accounting for oil and natural gas operations is followed whereby all costs of acquiring, exploring and developing oil and natural gas reserves are capitalized. These costs include lease acquisition, geological and geophysical, exploration and development and related overhead costs. Proceeds from the disposition of oil and natural gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized unless such disposition results in a significant change in the depletion and depreciation rate.

ii) Depletion and depreciation

Depletion and depreciation of resource properties are calculated using the unit-of-production method based on production volumes before royalties in relation to total proved reserves as estimated by independent engineers. Natural gas volumes are converted to equivalent oil volumes based upon the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proven reserves and excludes estimated salvage values and the cost of unevaluated property. Significant processing facilities, net of estimated salvage, are depreciated based on the estimated useful life of the facilities.

iii) Ceiling test

The carrying amount of property, plant and equipment, net of recorded deferred income taxes and site restoration and abandonment costs, is limited to the sum of estimated future net cash flows from proven reserves and the cost, less impairment, of undeveloped properties. Estimated future capital costs, production-related general and administrative expenses, interest expenses, and applicable income taxes are deducted in determining estimated future net cash flows from proven reserves.

iv) Future site restoration and abandonment costs

A provision has been made for estimated future site restoration and abandonment costs calculated on the unit-of-production method. The 1998 provision of $6.5 million (1997 - $7.3 million) is included in depletion and depreciation expense.

The calculations in ii) and iii) and iv) are based on sales prices, costs and regulations in effect at the end of the year.

d) Joint ventures

Many of the Company's exploration and development activities are conducted jointly with others and accordingly, the accounts reflect only the Company's proportionate interest in such activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Hedging activities

The Company uses forward contracts to hedge exposure to commodity price, foreign exchange and interest rate fluctuations. Gains and losses on oil and natural gas and foreign exchange transactions are reported as adjustments to oil and natural gas revenues when the related production is sold and gains or losses on interest rate hedging transactions are reported as adjustments to interest on long-term debt.

f) Foreign currency translation

Amounts denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Gains or losses are included in net income, except those related to long-term debt on which the gains or losses are deferred and amortized over the life of the debt.

2. PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT

December 31,	1998	1997
Oil and natural gas properties, and production and processing equipment	$ 986,108	$ 737,554
Other	3,551	3,125
	989,659	**740,679**
Accumulated depletion and depreciation	(244,596)	(192,168)
Net book value	**$ 745,063**	**$ 548,511**

During the year ended December 31, 1998, $2.2 million (1997 - $2.4 million) of overhead expenses were capitalized. The cost of unevaluated property excluded from the depletion base as at December 31, 1998, was $93.2 million (1997 - $82.6 million).

3. BANK LOAN

BANK LOAN

December 31,	1998	1997
Bankers' acceptances	$ 249,809	$ 169,468

The Company has a long-term loan facility arranged with a syndicate of Canadian chartered banks which is unsecured and bears interest at the prime rate or bankers' acceptance rate plus a stamping fee which varies between 50 and 75 basis points, depending on the Company's debt to cash flow ratio. The maximum borrowing under the facility is $375 million comprising a $350 million production loan facility and a $25 million operating loan facility. The facility is subject to an annual review by the lenders at which time a lender can request conversion to a term loan with repayment not to exceed five years. As at December 31, 1998, the Company had $6.7 million of cheques issued in excess of cash on hand, included in accounts payable, which reduced the amount otherwise available to be drawn on the loan facility.

4. CAPITAL STOCK

a) Authorized

i) Unlimited number of preferred shares issuable in one or more series.
ii) Unlimited number of voting common shares without nominal or par value.

4. CAPITAL STOCK (continued)

b) Issued

CAPITAL STOCK

Common shares	Number	Consideration
Balance, December 31, 1996	39,283,031	$ 184,660
Issued on exercise of stock options	675,975	4,079
Issued to employee stock savings plan	45,105	754
Balance, December 31, 1997	**40,004,111**	**$ 189,493**
Issued for cash	4,000,000	80,000
Issued on exercise of stock options	1,222,600	6,808
Issued to employee stock savings plan	51,609	861
Share issue expenses, net of deferred income taxes of $1,479	–	(1,838)
Balance, December 31, 1998	**45,278,320**	**$ 275,324**

c) Stock options

Options are issued to employees and directors. Changes during the year are summarized as follows:

STOCK OPTIONS

		Exercise price	
	Number of options	From	To
Balance, December 31, 1996	3,442,600	$ 2.25	$ 12.10
Granted	1,013,000	$ 13.90	$ 17.60
Exercised	(675,975)	$ 2.25	$ 11.90
Cancelled	(230,600)	$ 2.75	$ 16.70
Balance, December 31, 1997	**3,549,025**	**$ 2.25**	**$ 17.60**
Granted	1,422,000	$ 13.60	$ 18.25
Exercised	(1,222,600)	$ 2.25	$ 16.30
Cancelled	(412,550)	$ 4.30	$ 15.25
Balance, December 31, 1998	**3,335,875**	**$ 4.30**	**$ 18.25**

Options are exercisable on a cumulative basis at 20 percent per year for each of the first five years following the date of the grant and, if unexercised, expire six years from the date of the grant as follows:

		Exercise price	
Year of Expiry	Number of options	From	To
1999	409,000	$ 4.30	$ 7.15
2000	256,375	$ 5.05	$ 7.15
2001	573,900	$ 6.40	$ 11.90
2002	798,100	$ 12.10	$ 17.60
2003	1,077,500	$ 13.60	$ 16.70
2004	221,000	$ 13.75	$ 18.25
Total	**3,335,875**	**$ 4.30**	**$ 18.25**

5. INCOME TAXES

The provision for income taxes reflects an effective income tax rate that differs from combined federal and provincial statutory tax rates as follows:

INCOME TAXES

Years ended December 31,

	1998	1997
Income before taxes	$ 56,174	$ 71,567
Corporate income tax rate	44.6%	44.6%
Computed income tax provision	**$ 25,054**	**$ 31,919**
Increase (decrease) resulting from:		
Non-deductible Crown payments, net	9,753	14,733
Non-deductible depletion	2,152	2,555
Resource allowance	(15,000)	(15,824)
Other	(453)	(329)
Deferred income taxes	**$ 21,506**	**$ 33,054**

6. NET INCOME PER COMMON SHARE

Net income per share information is computed by dividing the net income by the weighted average number of common shares outstanding during the year. The fully diluted net income per common share calculations include imputed interest, net of tax, of $2.0 million (1997 - $1.6 million) on the potential proceeds from the exercise of stock options.

NET INCOME PER SHARE

Years ended December 31,

	1998	1997
Net income per common share		
Basic	$ 0.79	$ 0.94
Fully diluted	$ 0.77	$ 0.90
Weighted average number of common shares outstanding		
Basic	41,329,991	39,791,887
Fully diluted	44,705,317	43,322,744

7. FINANCIAL INSTRUMENTS

The carrying values of accounts receivable, accounts payable and accrued liabilities and bank loan approximate their fair value.

The Company uses various types of financial instruments to reduce its exposure to fluctuating oil and natural gas prices, foreign exchange rates and interest rates. The Company had the following contract positions outstanding at December 31, 1998:

FINANCIAL INSTRUMENTS

Exposure	Position hedged	Pricing	Term	Market value of contracts at year-end* Gain (loss) Cdn.
Commodities:				
AECO Gas Swaps	90,000 GJ/d total	$ 2.06 to 2.935 Cdn/GJ	Varying from Nov. 1 98 - Oct. 31 99	$ (406)
AECO/Chicago Basis Swap	5,000 MMbtu/d	$ 0.840 U.S./MMbtu	Nov. 1 98 - Oct. 31 99	$ 1,345
Foreign Exchange:				
U.S. Dollar forward sales	$2,000 U.S./month	$ 1.3468 to 1.3826	Jan. 1 97 - Dec. 31 99	$ (3,967)
U.S. Dollar forward sale option	$1,000 U.S./month	$ 1.3826	Jan. 1 00 - Dec. 31 01	$ (3,418)

* based on Canadian dollar exchange rate of 1.5305 per U.S. dollar

8. RELATED PARTY TRANSACTIONS

The Company incurred $1,207,518 (1997 - $78,500) for underwriting fees to a firm with directors who are directors of the Company.

9. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

Most entities depend on computerized systems and therefore are exposed to the Year 2000 conversion risk, which, if not properly addressed, could affect an entity's ability to conduct normal business operations. Management is addressing this issue, however, given the nature of this risk, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company and those with whom it deals such as customers, suppliers, or other third parties, will be fully resolved without adverse impact on the Company's operations.

31 SUMMARY INFORMATION - FIVE YEAR SUMMARY

Years ended December 31,

		1998	1997	1996	1995	1994
Financial						
($000s, except per share amounts)						
Gross revenues		210,739	217,559	173,773	129,068	89,538
Cash flow		113,010	122,899	90,051	62,989	41,483
Basic per share		2.73	3.09	2.51	1.96	1.64
Fully diluted per share		2.68	3.01	2.43	1.90	1.51
Net income		32,588	37,216	23,839	11,957	7,123
Basic per share		0.79	0.94	0.66	0.37	0.28
Fully diluted per share		0.77	0.90	0.66	0.37	0.28
Capital expenditures, net		248,980	179,386	101,848	131,938	216,714
Total assets		793,457	584,779	464,705	379,919	300,721
Long-term debt		249,809	169,468	134,880	159,388	126,021
Shareholders' equity		392,445	274,026	231,977	159,315	123,064
Common shares outstanding (000s):						
Basic		45,278	40,004	39,283	34,831	30,312
Fully diluted		48,614	43,553	42,726	38,138	33,453
Market value per common share	- High	20.50	20.20	14.50	7.125	9.25
($/share)	- Low	12.75	13.35	6.75	4.85	4.50
	- Close	16.50	15.45	14.00	6.875	5.875
Operating						
Production						
Oil and liquids production (bbls per day)		13,958	12,604	11,483	10,577	6,934
Oil and liquids price ($/bbl)		15.42	21.71	21.80	19.86	19.27
Natural gas production (mmcf per day)		184.0	164.8	129.0	97.4	58.2
Natural gas price ($/mcf)		1.97	1.96	1.74	1.47	1.91
Reserves (proven and probable)						
Oil and liquids (mmbbls)		64.7	47.7	40.4	33.6	30.5
Natural gas (bcf)		772.0	638.4	515.0	481.5	328.7
Wells drilled (gross)						
Natural gas		105	71	42	42	39
Oil		23	69	63	16	9
Dry		28	22	16	8	9
		156	**162**	**121**	**66**	**57**
Undeveloped land holdings						
Western Canada (000s of acres)						
Gross		2,027	1,856	1,535	1,571	1,027
Net		1,735	1,563	1,318	1,206	831
Average working interest (%)		86	84	86	77	81

QUARTERLY FINANCIAL SUMMARY

($000s, except per share amounts)

Three months ended	1998 Mar 31	1998 Jun 30	1998 Sept 30	1998 Dec 31	1997 Mar 31	1997 Jun 30	1997 Sept 30	1997 Dec 31
Financial								
Gross revenues	48,295	47,480	51,117	63,847	56,340	47,476	52,647	61,096
Cash flow	25,456	25,520	28,640	33,394	32,351	25,741	28,071	36,736
Basic per share	0.63	0.63	0.70	0.77	0.82	0.65	0.70	0.92
Fully diluted per share	0.62	0.62	0.68	0.76	0.81	0.63	0.68	0.89
Net income	7,495	7,577	8,239	9,277	11,532	7,129	7,820	10,735
Basic per share	0.19	0.18	0.20	0.22	0.29	0.18	0.20	0.27
Fully diluted per share	0.19	0.17	0.20	0.21	0.27	0.18	0.18	0.27
Operating								
Oil and liquids production (bbls per day)	13,039	12,946	13,290	16,527	12,016	12,342	12,890	13,152
Oil and liquids price ($/bbl)	16.30	14.94	16.98	13.85	24.23	21.01	21.30	20.50
Natural gas production (mmcf per day)	170.1	178.9	182.5	204.3	146.9	165.0	173.0	173.9
Natural gas price ($/mcf)	1.90	1.84	1.81	2.28	2.28	1.59	1.72	2.27

CONVERSIONS OF UNITS

Imperial	Metric
1 ton	.907 tonnes
1.102 tons	1 tonne
1 acre	.40 hectares
2.5 acres	1 hectare
1 bbl	.159 cubic metres
6.29 bbls	1 cubic metre
1 mcf	28.2 cubic metres
.035 mcf	1 cubic metre
1 mile	1.61 kilometres
.62 miles	1 kilometre

Unless otherwise stated, all financial sums are stated in Canadian dollars.

ABBREVIATIONS

bbl	barrel (oil)
mmbbls	million barrels
bbls per day	barrels per day
boe	barrels of oil equivalent
mmboe	million barrels of oil equivalent
mmbtu	million British Thermal Units
mcf	thousand cubic feet (natural gas)
mmcf	million cubic feet
mmcf per day	million cubic feet per day
GJ	gigajoule
bcf	billion cubic feet
API	American Petroleum Institute
TSE	The Toronto Stock Exchange
NYMEX	New York Mercantile Exchange
AEUB	Alberta Energy and Utilities Board

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